Annual Report
2021

novobanco

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ADDITIONAL NOTES TO THIS REPORT

This document is the PDF/printed version of the Annual Report 2021 of Novo Banco S.A.. This version has been prepared for ease of use and does not contain ESEF information as specified in the Regulatory Technical Standards on ESEF (Delegated Regulation (EU) 2019/815). The official ESEF reporting package is available on our website at www.novobanco.pt/investidores. In case of discrepancies between this version and the official ESEF package, the latter prevails.

Novo Banco, S.A. | Head Office: Av. da Liberdade, n. 195, 1250-142 Lisbon.
Commercial and Tax identification number: 513 204 016
Share Capital: €6 054 907 314

Message from the Chairman of the General and Supervisory Board

Dear Stakeholders,

Year 2021 is the year that Novo Banco S.A. ("novobanco") completed the de-risking of the balance sheet through the clean-up of the past legacy issues, including disposal of non-core assets and delivered its first ever profitable annual financial results, helping secure its long-term viability.

The de-risking process of the past legacy issues including the disposal of non-core assets was first launched immediately following the acquisition of 75% of novobanco by Nani Holdings SGPS S.A. in October 2017 and has been executed throughout this period to year-end 2021 in accordance with the agreed Restructuring Plans and commitments by the Republic of Portugal to the European Commission, State Aid Directorate General for Competition ("DGComp"). The bank considers that all the 33 DG Comp commitments (Structural, Behavioural & Viability) have been fulfilled by novobanco based on the key assumptions that underpinned the agreed business plans 2017 to 2021. novobanco remains under the Restructuring Period until DG Comp completes the assessment of the fulfilment of these 33 commitments.

During the year the bank reduced its balance sheet by €0.7bn relating to disposals of non-performing loans and related exposures as well as through the normal year-end impairment and revaluation processes. novobanco signed two separate portfolio asset sales of non-performing loans and related exposures ("Wilkinson and Orion"), taking advantage of the continued investor appetite for these type of assets in Portugal, being capital accretive and demonstrating adequacy of NPL coverage. novobanco reduced the non-performing loan ("NPL") ratio to 5.7% year-end 2021 and the NPL stock is now less than €2.0bn. The bank will continue to target a further reduction in the NPL ratio in 2022 to well below 5%, in line with the European average. On 30th November 2021, novobanco completed the sale of the non-core asset Spanish Branch business which strengthened the capital position of the bank in line with the strategy to redeploy resources to support its core banking businesses in Portugal.

Year 2021 also saw significant investment in and support of our commercial businesses. Corporate Banking continued to provide financial support to its customers, particularly given the impacts of COVID-19 on their business activities as well as promoting and participating in various initiatives (e.g., "Portugal que Faz" focusing on business associations or "Soluções novobanco Agricultura" presence at Agroglobal) helping provide solutions that best fit the challenges faced by companies, at regional and sectoral level across Portugal. In end of 2021, novobanco successfully secured from the European Investment Bank (EIB) group funding guarantees of €887.5mn which will allow novobanco to provide further financing to Portuguese companies up to €1.545bn, supporting job creation and economic growth.

novobanco has delivered the key objective of sustainable profitable growth supporting our corporate and retail banking customers.

BYRON HAYNES
Chairman of the General and Supervisory Board

Retail Banking has continued to successfully roll out its unique new distribution model ("omni-channel") to its over 1.0mn customers. To date 116 branches across the country have been re-designed and refurbished supported by a number of digital initiatives and developments throughout the year. novobanco´s omni-channel distribution model is providing an integrated customer experience levering on the new branch model and self-service channels, backed by digital transformation and innovative products and services.

During the last quarter of 2021, the bank launched its new brand "novobanco" a cornerstone in shaping our future reflecting its viability, sustainability and through the tireless dedication of its people to continue to serve our customers with the banking products and services they need now and going forward.

Throughout year 2021, the General and Supervisory Board ("GSB") and the respective GSB committees supervised and supported the Executive Board of Directors ("EBD") in the monitoring and execution of the bank's strategic goals and financial targets as set out and agreed in the medium-term plan.

For year 2021 novobanco has delivered the key objective of sustainable profitable growth supporting our corporate and retail banking customers. Positive net income of €185m is driven by growth in commercial banking income and a reduction in operating and risk costs supported by maintaining a strong capital and liquidity position during the year.

For year 2022, realistic strategic goals and financial targets for novobanco have been set and agreed, building further sustainable positive net income reflecting the continued investing in and support of our commercial businesses.

On behalf of the GSB, I would like to thank our customers and our other stakeholders for their continued support, trust and loyalty to novobanco throughout the clean-up of the past legacy issues over the last four years. Finally, the GSB and myself would like to thank António Ramalho, the rest of the EBD and the employees of novobanco for all their tremendous hard work, dedication and commitment over these last four years and in particular in achieving sustainable profitability and growth in 2021.

Byron Haynes

Chairman of the General and Supervisory Board

Perspectives by António Ramalho

António Ramalho, Chairman of Executive Board of Directors, gives an interview highlighting the achievements of 2021 and the prospects for the future of novobanco.

After seven years of cleaning up the balance sheet and with the restructuring cycle completed, novobanco is embarking on a phase of consolidation of profitability and sustainable business growth.

1: The year 2021 was the turning point in terms of the bank's profitability, with a net profit of €185mn. What do you point out as the determining factor in this restructuring cycle?

The results achieved this year are the culmination of several events which, despite the adversities, enabled novobanco to execute the restructuring plan approved by the DG COMP when the bank was sold to Lone Star in 2017. Prominent among these are the dedication and resilience of all novobanco's employees and the trust placed in us by our clients. During this cycle, it was the conviction that together we make the future that made it possible to normalise the balance sheet, with a substantial reduction of legacy assets through sales and revaluations, alongside the optimisation of the operational model, including the simplification of the organisation and the closure of the international operations, allowing novobanco to reposition its activity in the domestic market.

The 2021 financial results represent the beginning of a new cycle and the transition to sustainable profitability with improved operating income (i.e.: Cost to Income of 75% in 2017 vs 48% in 2021) and asset quality (i.e.: NPL ratio of 28% in 2017 vs 5.7% in 2021; Real Estate exposure of 4.8% in 2017 vs 1.8% in 2021).

2: Regarding the operational and financial results achieved in 2021, what would you underline?

In terms of operating results, two indicators stand out: i) €3bn of new credit origination, of which 60% of corporate loans, and; ii) the unique and integrated experience provided to the client, namely with more than 100 branches reshaped according to the new distribution model and the new brand, and the increase in the penetration rate of active digital clients to 54% (vs 50% in 2020).

The operational performance underpinned the positive performance of financial results: i) net interest income and fees and commissions grew by 3.5%, (to €856mn), with the former reflecting the reduction in average deposit rates, the lower cost of long-term funding and the maintenance of the pricing policy; ii) the simplification of the organisation and processes that allowed novobanco to boost efficiency and achieve a commercial banking income per employee of €195k (vs €175k in 2020); and iii) the normalisation of the cost of risk, at 60 bps (including Covid 19 related impairments).

> **In 2021 we entered the route of profitability and growth, and we are prepared to grow in a sustainable manner and to support companies and the Portuguese economy.**
>
> **ANTÓNIO RAMALHO**
> Chairman of Executive Board of Directors

Finally, I would like to stress the debut issue of €300mn senior preferred notes that took place in July and which marked novobanco's return to the capital markets.

In short, novobanco achieved in 2021 a net profit of €185mn, demonstrating its capacity to generate capital and to grow by supporting the Portuguese economy.

3: You mention novobanco's capacity to generate capital, operating with Capital Ratios above the requirements. However, the recomposition of regulatory capital is one of the challenges faced by novobanco. How will you address this challenge?

For all regulatory indicators in force, novobanco surpassed the requirements, namely with a CET 1 ratio of 11.1%, a solvency ratio of 13.1%, and a MREL ratio above the requirement. In the case of Capital ratios, the bank operates above the transitional ratios defined in the pandemic context. The restructuring carried out in recent years and consequent normalisation of its activity, as shown in 2021, should allow novobanco to create value, generate capital, and recompose the capital by its own means.

4: In the new strategic plan novobanco presents itself as a customer-centric domestic bank. Which key features would you highlight in the strategic plan?

The new strategic plan was developed in light of the macroeconomic challenges, the increasingly competitive environment and the pace of change and disruption, to deliver an innovative quality service to the clients. The client is the core of the strategy. Omnicality, the new distribution and customer interaction model, together with innovative digital functionalities, will allow novobanco to offer a differentiating experience and quality of service. In this context, novobanco also sees itself as a partner bank, promoting an ecosystem of partnerships compatible with everyone's needs and ensuring convenience to clients when addressing their financial needs.

The second pillar of the strategic plan is simplification, with an efficiency plan based on levers such as the robotic automation of processes, rationalisation and reorganisation, the new distribution model, and digitisation.

Profitability and the appropriate risk profile, as the third pillar, seek to achieve the continuous improvement of risk and governance models, improving asset quality, and the implementation of capital allocation and risk optimisation models.

Last but not least, talent and innovation, and notably the implementation of a talent development programme. This programme aims to make novobanco more agile, to leverage internal knowledge and to implement disruptive initiatives aligned with the strategic objectives, simultaneously motivating and recognising the qualities of its human capital.

5: Just as novobanco is starting a new cycle, the national economy, through the Recovery and Resilience Plan (RRP), is also starting a set of reforms and investments aimed at restoring sustained economic growth. What is the role of novobanco in this process?

After the successful implementation of the restructuring and legacy clean-up process, novobanco is now in a stronger financial and capital position to support businesses and families. On the other hand, the self-financing capacity and own funds level of Portuguese companies are today also more solid, the result of the growth in exports and the deleveraging carried out over the last decade.

Unlike in the past, the banking sector, including novobanco, is not seeking to act in terms of the capitalisation of companies, but rather to contribute to the development of borrowed capital, i.e., to have a role in companies' high standards and risk management policy, helping businessmen to take decisions that enable the efficient and speedy application of funds.

Acting as a partner, novobanco has implemented measures such as support to ensure the effectiveness of the application process (including rules, deadlines, forms to be submitted, alerts, etc.), and the development of guarantee and complementary financing products, offering customised financing solutions.

6: In light of the growing importance of the transition to a more sustainable economy, namely involving the ECB's climate stress tests in 2022, what is novobanco's approach and outlook? How can novobanco contribute to a more sustainable society?

As part of novobanco's strategic plan, a new sustainability strategy is being defined for the three ESG areas - Environment, Social and Governance. In this context, the framework of the ESG strategy is developed in 3 phases. The first, mainly focused on the climate and the characteristics of the credit portfolio and implementation of a portfolio strategy, aims to identify the exposures whose behaviour is more geared to mitigating the associated risks, including climate risks. The next phase is to understand how these analyses and conclusions can influence the risk management policy, access to capital markets and the cost of funding and capital. Finally, the third phase concerns the contribution that financial institutions, including novobanco, can set in motion with imagination and creativity, for example to develop financing structures that better address the challenges of a sustainable society. One of the examples is the circular economy - how can the banking system contribute to avoid surpluses, i.e., what financing instruments can it develop to promote more sustainable practices such as reusing the components of any product, making it more dependent on the use of goods and less on amortisation. A new culture and a new customer relationship rationale is needed, of which an example can be found in the car industry where long-term rentals have more and more relevance versus the purchase of cars.

ESG is a new challenge that is reflected in the financial system, being prepared to adjust to these needs and find appropriate solutions is a critical challenge for sustainable business growth.

7: The environment has clearly been the dimension under stronger focus in recent years. However, the social dimension is progressively, and often due to climate action, deserving special attention. What would you highlight in the Group's performance in this area?

The results of our 2021 impact assessment show that the social issue is important for our various stakeholders, and therefore it is a topic that deserves our best attention, and we will soon have news in this regard. This year, the pandemic has once again had a negative effect on the health and safety not only of our employees, but also of clients and the community in general, with sometimes serious consequences on the labour market, and the Group never ceased to find solutions to deal with these adversities. In the case of employees, we have maintained the home office system and added a new support package for employees which includes the possibility of receiving in advance 50% of the Christmas allowance, access to credit under special conditions to meet the needs for IT equipment and training, and also free access to family coaching sessions and psychological support. As regards our clients, we were once again present, being a partner in the most difficult moments, avoiding bankruptcies and consequently more unemployment. At community level, we maintained our support to various entities that voluntarily help their neighbour, having taken part in two major campaigns to tackle the problems resulting from the pandemic.

Let me just add one more fact that I would like to highlight. To go through this ESG journey in 2021 we have redefined our sustainability governance model, a model implemented in two phases that will allow an assessment and a structured approach to sustainability across the whole Group and which has the full involvement of the Executive Board of Directors and the General and Supervisory Board.

8: To conclude this interview, would you like to leave a final message?

In 2021 we entered the route of profitability and growth, and we are prepared to grow in a sustainable manner and to support companies and the Portuguese economy. We are entering a new cycle, also based on a new brand image.

We have shown that it was worthwhile and that together we make the future, and so I would like to end by thanking all employees, clients and all the governing bodies of the bank, with special emphasis to the General and Supervisory Board for their commitment and trust in novobanco.

Management Report
2021

novobanco

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1.0
WHO WE ARE

1.1 Novo Banco Group
1.2 Organisation

Ricardo Manuel Santos Freire
Retail South Department - Customers Assistant

Maria Inês Ferreira
Retail North Department - Senior Customer Assistant

1.1 Novo Banco Group

Novo Banco, S.A. ("novobanco" or "the bank") together with the subsidiaries and equity holdings that make up the Novo Banco Group ("Group" or "novobanco Group") is mainly active in the Portuguese banking sector, in both corporate and retail segments, also developing activity in asset management. In addition, the bank has equity stakes in companies operating in venture capital, real estate, renting and corporate services.

novobanco was born in 2014 upon the resolution of Banco Espírito Santo S.A. ("BES"). From the outset, novobanco has shown its resilience, overcoming the huge challenges resulting from its status as a transitional bank and from the new commitments imposed by the European Commission for the sale, in October 2017, of 75% of the Resolution Fund's holdings to Lone Star, through Nani Holdings S.G.P.S., S.A..

The first years of novobanco's life laid the foundation for its renaissance in 2021:

2014

CREATION OF NOVO BANCO

Creation of NOVO BANCO following the Resolution applied to BES by Banco de Portugal

2017

LONE STAR ACQUIRES 75% SHARE CAPITAL OF NOVO BANCO

In the context of the sale, 33 new commitments were imposed by the European Commission, to be fulfilled by the bank

At the time the shareholders were as follows:

- 75% Lone Star Funds (through Nani Holdings, S.G.P.S., S.A.)
- 25% Fundo de Resolução[1]

2020

THE RESTRUCTURING CYCLE

The bank managed to reduce the legacy exposure and delivering the commitments at the same time, demonstrating its resilience and performance capacity

END OF 2021

NEW PHASE OF RENOVATION AND TRANSFORMATION

In the final stage of the restructuring cycle, the bank enters a new phase as a commercial bank with a strong presence in the corporate segment and a close relationship with the customer.

Shareholders at the signature of the present report:

- 75% Lone Star Funds (through Nani Holdings, S.G.P.S., S.A.)
- 23.44% Fundo de Resolução
- 1.56% Direcção-Geral do Tesouro e Finanças

1. On December 15, 2021, novobanco approved a capital increase from the conversion of conversion rights related to fiscal year 2015 through the issue of 154,907,314 new common shares, representing 1.56% of the share capital, attributed to Portuguese State. Thus, at the date of this report, novobanco is held 75% by Lone Star Funds (through Nani Holdings, S.G.P.S., S.A.), 23.44% by the Resolution Fund and 1.56% by the Portuguese State. See topic 6.1 Shareholder Structure for further information

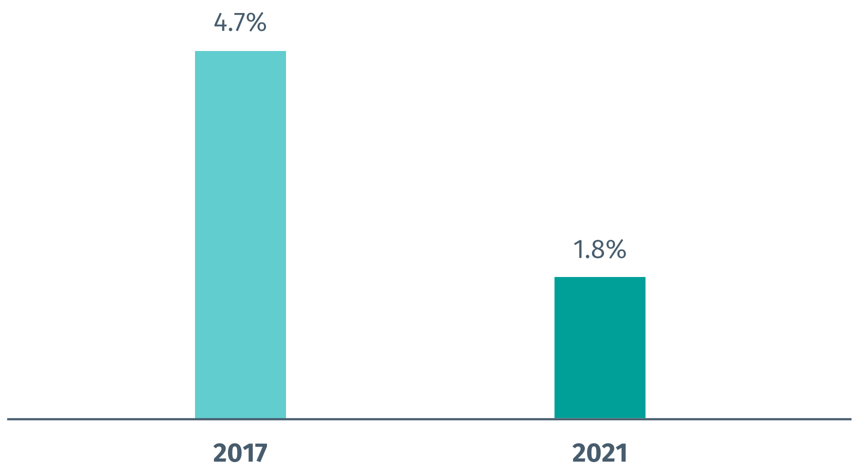
2. Pending to be verified by the Monitoring Trustee

Legacy divestment carried out simultaneously with operational model optimization

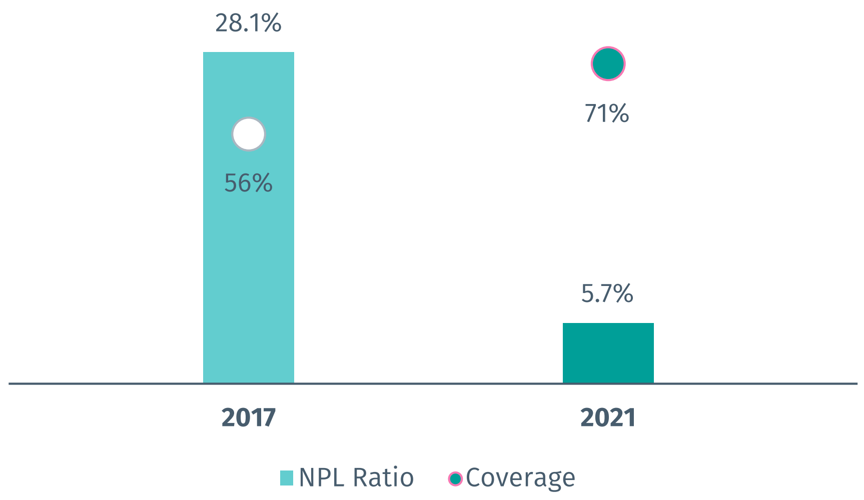
Outstanding execution of balance sheet clean-up despite the challenging environment

REAL ESTATE EXPOSURE

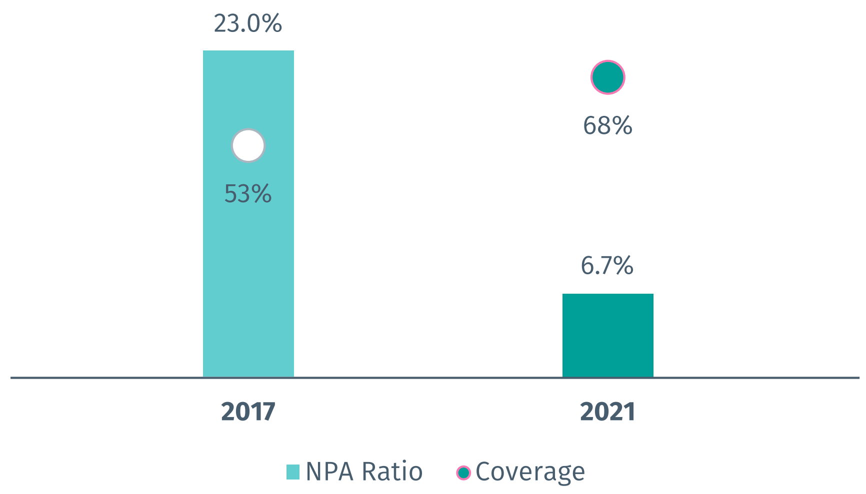
(%)



NPL AND COVERAGE RATIO



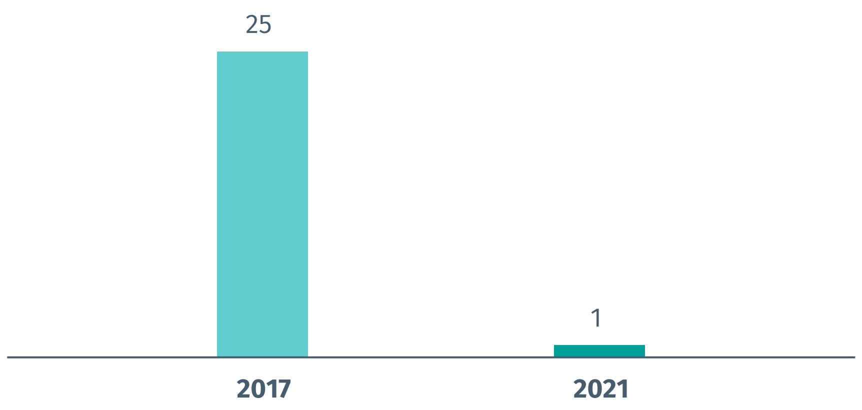
NPA AND COVERAGE RATIO



Business recalibration, leading a smaller balance sheet, while maintaining the core business[3]:

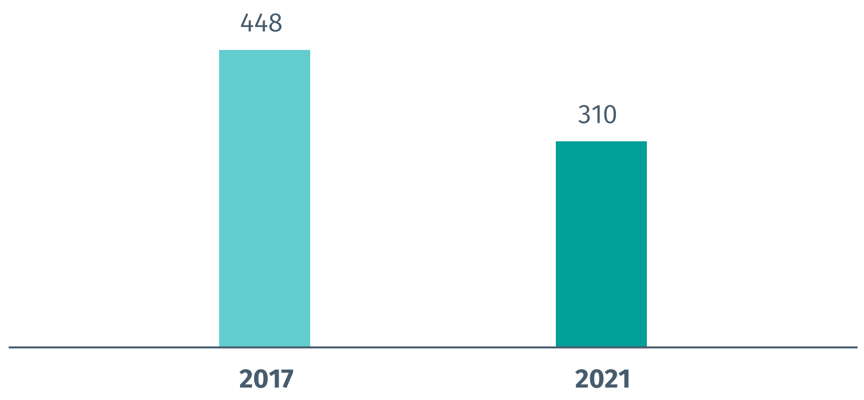
INTERNATIONAL BRANCHES

(#)



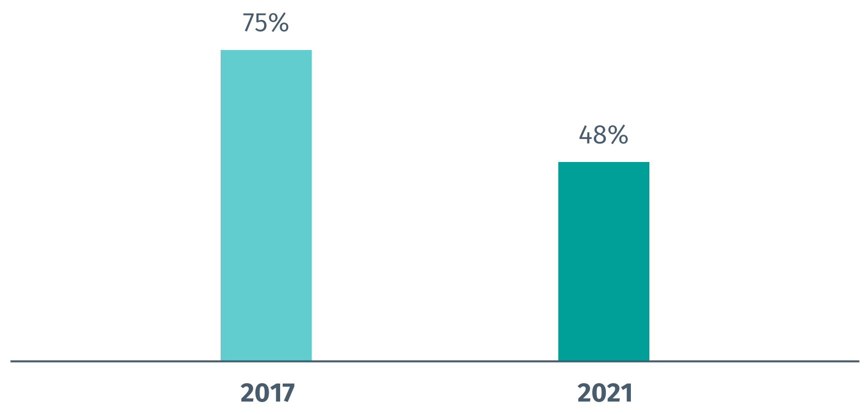
OPTIMIZATION OF DOMESTIC BRANCH NETWORK

(#)



COST TO INCOME

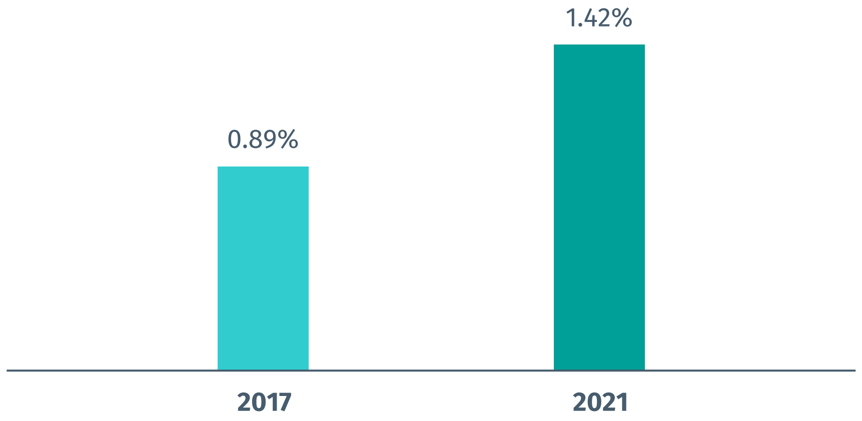
(%)



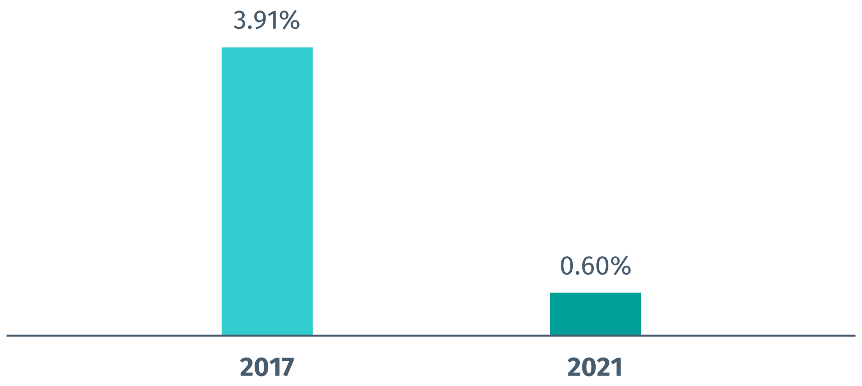
3. Cost-to-Income defined has Operational Costs divided by Commercial Banking Income

Significant profitability turnaround and a successful transition to capital-accretive performance

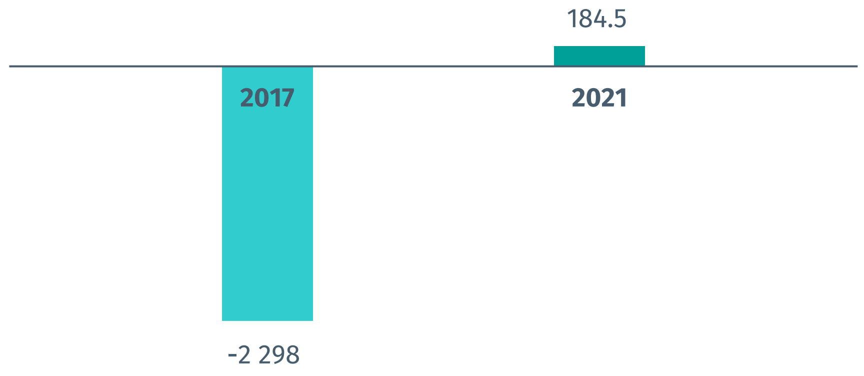
NET INTEREST MARGIN
(%)



COST TO RISK
(%)



NET INCOME
(€mn)



In this new phase, novobanco's vision leverages its knowledge and strong presence in the corporate segment, defining its identity, principles and values.

PERSONALITY

A Portuguese, Professional, Partner and Proximate bank...

PORTUGUESE
A leading bank in Portugal, focused on national economic priorities, supporting families and businesses to thrive.

PROFISSIONAL
A relentless focus on products, services and capabilities devised to serve all-sized businesses, including professional retail customers and households.

PARTNER
Leveraging partnership ecosystems to support customers holistic needs to successfully face opportunities and challenges.

PROXIMATE
Prioritizing omnichannel operating models to deliver convenience and easy-to-bank experience as the pillar of our customer relationships.

PRINCIPLES AND VALUES

... and is intrinsically anchored in the principles and values that guide the way to do business:

COLLABORATION
Collaborating with all stakeholders to reach better outcomes for customers and society.

DYNAMISM
Assuming continuous transformation, as expectations are evolving at exponential rates, and reinvention to remain relevant.

DIVERSITY
Reflecting the different needs of customers and employees in solutions and plans.

TRANSPARENCY
Remaining authentic and open exchanges of information across all stakeholders.

EMPATHY
Incorporating the voice of customers and society into the way we do business.

PEOPLE

A team of professionals committed ...

4 193
employees of Grupo novobanco

€754k
investment in training and development

44
training hours (average) per employee

BUSINESS

...to supporting families, and driving Portuguese companies to innovate, reinvent, export...

1.4
million clients

96.0%
satisfied and very satisfied clients – Retail

97.9%
satisfied and very satisfied clients – Medium Enterprises

FINANCIAL RESOURCES

...and to turning great difficulties into great opportunities...

€24.9bn
Loans granted

€3.0bn
Loans origination in 2021

€27.3bn
Deposits

TECHNOLOGY & EXPERIENCE

... using an omnichanel approach based on agile methodology,

13
multidisciplinary agile teams working on digital transformation

722
thousand active clients in the digital channels

35.7%
of total sales are digital

SOCIETY

to give back to community the support it has received.

€1.6mn
in donations (42% Health Patronage; 33% Social Patronage; 16% Cultural Patronage; 9% Training & Research)

16
paintings loaned in 2021, increasing to 93 the works on permanent exhibition in 36 Museums around the country

790
suppliers registered (of which 99% domestic)

Supplier portal promotion program (suppliers with turnover >10k to the group in 2020

1.1.1 Business Model

novobanco is a Portuguese universal bank that provides the full spectrum of financial products to individuals, corporate and institutional clients, serving the entire national territory, with a strong focus on servicing and supporting the Portuguese business community.

novobanco business model is based on two main commercial banking segments: i) corporate; and ii) retail. In both segments, novobanco seeks to anticipate and respond to the needs of its clients through its offer of innovative, effective and transparent banking products and services, based on high ethical and integrity standards and customer satisfaction assessment tools.

CORPORATE: A HISTORICAL KNOW-HOW IN THE SECTOR

Highlights: Main Product and Services Offering

CASH MANAGEMENT

- Special Accounts and Cards
- Drafts, Factoring and Collection solutions
- Payment Management

LENDING

- Working Capital financing and revenue anticipation solutions
- Lending and guarantees
- Leasing and Renting services

INSURANCE

- Property & Casualty insurance
- Credit insurance
- Small Business insurance

HUMAN CAPITAL SOLUTIONS

- Euroticket and payment cards
- Auto lending and renting
- Individual insurance

HELPING CLIENTS TO GO GLOBAL

- International Trade
- Trade Finance
- Support to export

ADVISORY SERVICE

- RRP and Portugal 2030 finance partner
- Sector specific solutions
- Special Initiatives and fairs

RETAIL: A PARTNER FOR HOUSEHOLDS, WITH A WIDE RANGE OF PRODUCTS

ACCOUNTS, CARDS & PAYMENTS

- Accounts bundled for different needs; fully online opening
- Strong authentication system; functionalities incl: contactless, virtual cards, MB Way (...)

HOUSING LOANS

- Acquisition & maintenance works
- Online loan submission
- Special conditions for young and non-resident

SAVINGS AND INVESTMENT

- Deposits & retirement accounts
- Investment Funds, Unit linked, structured deposits
- Discretionary mgmt & advisory

INSURANCE

- Life Protection
- Health and Property & Casualty
- Special solutions for self employed workers

SMALL BUSINESS

- Special small business accounts
- Cash and payments management solutions
- Multi-risk business insurance

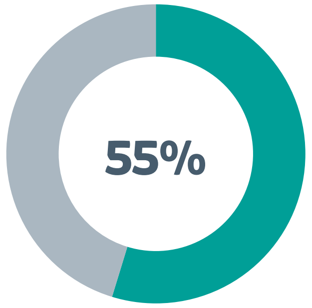
CONSUMER FINANCE

- Online simulation and submission
- Credit insurance option with unemployment and life coverage
- POS lending partnership "Heypay"

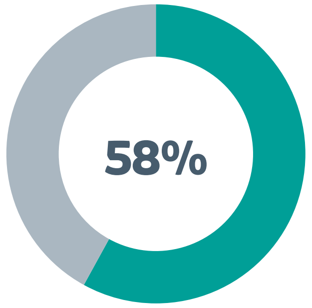
~1.4 MILLION CLIENTS[1]

CORPORATE BANKING

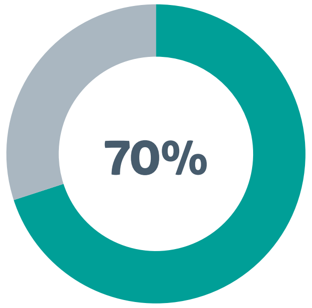
Corporate segment includes SMEs and Large companies, being suppported by 2 corporate and 20 business centre



Weight of corporate credit in overall novobanco portfolio (2021 YE)



SMEs in Portugal that are novobanco clients (~12.3k; 2020 YE)



Large corporates in Portugal that are novobanco clients (~1.3k; 2020 YE)

RETAIL BANKING[2]

- Specialised, diversified and distinct product offering to meet client needs
- In addition to the 311 branches, novobanco has an omnichannel approach through helpdesk services, internet, phone and mobile banking
- Universal product offering including life/non-life insurance and asset management (through GNB Gestão de Ativos)

	Deposits (€bn)	Gross Loans (€bn)
Small business	~20%	~20%
Affluent	~60%	~30%
Mass Market	~20%	~50%

MARKET SHARE[3]

20.2% TRADE FINANCE	**15.6%** POS	**14.4%** CORPORATE LOANS	**13.0%** ASSET MGMT	**9.5%** MORTGAGE LOANS	**9.5%** DEPOSITS	**5.4%** CONSUMER LOANS

(1) novobanco group clients, including Novobanco Açores and BEST ;
(2) December 31th 2021, End of Period; Affluent includes upper affluent (Singular); % calculated as a proxy of management data;
(3) December 2021 data; sources: Banco de Portugal, APS, APFIPP;

In addition to novobanco's branches and corporate and business centres, the novobanco business model is also supported by:

novobanco DOS AÇORES

novobanco dos Açores is the result of a strategic alliance between novobanco (57.5%) and Santa Casa da Misericórdia de Ponta Delgada (30%), which was joined by the Bensaude Group (10%) and thirteen other Santa Casa da Misericórdia units from all the Azores islands (2.5%).

novobanco dos Açores has as its mission to serve its clients (individuals, companies and institutions) and the Azorean regional economy. Its strategy relies on key competitive advantages such as economic and financial strength, a culture of service to the benefit of the population of the Azores, wide experience of the local market and a strong tradition of close relationships with the Clients.

Detailed information on the activity of **novobanco dos Açores** available here: www.novobancodosacores.pt

Best Bank

Banco Best - Banco Eletrónico de Serviço Total, S.A. is a digital platform that provides the whole range of products and services of a universal bank, standing out for its strong technological nature and open architecture business model, based on national and international partnerships in the areas of Savings, Asset Management and Trading.

Banco Best operates in all segments of retail banking, providing a wide array of services ranging from banking solutions, savings, investments, credit, and day-to-day financial management.

Banco Best's business strategy is especially competitive when it comes to meeting the investment needs of a segment of individual clients who seek and value more innovative financial services, not restricted to the domestic market, more independent, diversified and sophisticated.

Banco Best's strong bet on innovation and dynamic management of a wide network of national and international partners has been key to assert its position as a digital Marketplace of investment solutions: the bank distributes around 6,000 products - Investment Funds, ETFs, Retirement Solutions, Capitalisation Insurance, Discretionary Management, Robot Advisor, etc. - managed by the most prestigious national and international financial entities.

Technology is part of Banco Best's DNA. The bank's digital channels - App and Website - give clients total autonomy in their relationship with the bank and a pleasant and effortless experience. Through the App and Website - which in 2021 had a major upgrade - clients can, among others: open their account, access information on the entire offer and use the various support tools, monitor market indicators and manage their portfolio - buy and sell, monitor returns -, perform the various operations and fulfil general duties, such as updating data.

Detailed information on the activity of **Banco Best** available here: www.bancobest.pt

GNB Gestão de Ativos
GRUPO novobanco

GNB Gestão de Ativos is one of the national management companies with the largest track record, and the quality of the management of its products and services has been recognised over the years both nationally and internationally. **GNB Gestão de Ativos** offers financial products and services, including several types of funds – mutual funds, real estate funds and pension funds - besides providing discretionary and portfolio management services. As at December 2021, **GNB Gestão de Ativos** had €9.9bn in assets under management in Portugal and the Luxembourg.

Detailed information on the activity of **GNB Gestão de Ativos** available here: www.gnbga.pt

1.1.2 Awards in 2021

JAN

novobanco elected Best Trade Finance Bank in Portugal

novobanco was, for the third consecutive year, the best Trade Finance Provider in Portugal, by the international magazine "Global Finance".

FEB

novobanco remains the only Portuguese bank in the Republic's debt issue consortium

novobanco remains the only Portuguese bank to be part of the international consortium that will prepare the launch of the Republic's first issue of the year. novobanco thus maintains its benchmark position in the international debt market.

MAR

novobanco elected "Best Distributor Portugal" at the SRP European Awards 2021

novobanco was awarded the "Best Distributor Portugal" prize by Euromoney Group's Structured Retail Products (SRP). The solidity and consistency of its offer in the area of Structured Products and the work that has been developed in this area over recent years are thus recognised at international level.

APR

NB Euro Bond was awarded by the Refinitiv Lipper Fund Awards 2021

The NB Euro Bond was awarded by the Refinitiv Lipper Fund Awards 2021, being considered the best Euro bond fund marketed in Europe for the last 3, 5 and 10 years.

JUN

novobanco elected by Global Finance "Best Sub-custodian Bank 2021" in Portugal

novobanco was ranked the best bank in the provision of Securities Custody Services in Portugal for the 16th time (2021) by the international magazine Global Finance, in nineteen years of this distinction.

AUG

novobanco shortlisted for Finovate Awards 2021

novobanco has qualified for the final phase of the innovation awards in the fintech industry, the Finovate Awards 2021, with a solution under the Phygital initiative, the Remote Signature with Unique Signature Number, which is running for the prize for Solution with Best Consumer Experience.

SEP

NB Euro Bond, NB PPR and PPR Vintage from GNB Gestão de Ativos won APFIPP awards

GNB Gestão de Ativos funds, NB Euro Bond, NB PPR/UCITS and PPR Vintage were awarded in the category of Best Other Bond Fund, in the category of Best Retirement Savings Fund with Risk 4 and in the category of Best Retirement Savings Fund with Risk 3, respectively.

NOV

The novobanco app is a finalist in the Portugal Digital Awards 2021

novobanco announces that the new App of novobanco (former NB smarter) is a finalist in the Portugal Digital Awards 2021, among more than 300 candidates.

GNBGA wins Best Bond Fund Manager Award (Portugal) by CFI.co

GNB Gestão de Ativos was awarded by CFI.co - Capital Finance International the prize for Best Bond Fund Manager (Portugal) 2021, which once again recognizes the performance of the management company in the asset management industry.

DEC

novobanco elected Best Trade Finance Bank in Portugal

novobanco was, for the fourth consecutive year, the best Trade Finance Provider in Portugal, by the international magazine "Global Finance".

novobanco App wins Best UX/UI in Finance Initiative at Banking Tech Awards 2021

1.1.3 Main Events in 2021

MAR

26 MARCH
Novo Banco Group Activity and Results - 2020

novobanco delivered €189.0mn of adjusted recurrent income before taxes, generated from a recurrent commercial banking income of €787.8mn and operating costs of €418.6mn.

APR

5 APRIL
Novo Banco, S.A. informs on the sale of the Spanish branch business

novobanco announced that has signed an agreement with ABANCA for the sale of its Spanish branch business. With this agreement, novobanco divests its retail, private banking and SME operations in Spain, including all 10 branches and employees.

MAY

29 MAY
Novo Banco, S.A. informs about assumptions used to measure the fair value of its stakes in the Restructuring Funds

novobanco disclosed further information on underlying quantitative indicators of fair value measurements of novobanco stakes in the Restructuring Funds, classified at "level 3" (IFRS 13). This information complements the information previously disclosed in the previous Annual Report.

31 MAY
Novo Banco, S.A. informs about 1Q21 consolidated results

novobanco announced net profit of €70.7mn in the first quarter of 2021 with the conclusion of the restructuring plan in 2020 leading to a turn-around in profitability, despite the current pandemic.

JUN

7 JUNE
Novo Banco, S.A. informs about the Contingent Capital Agreement

novobanco noted that it received on 4 June 2021 an amount of €317.0 million under the Contingent Capital Agreement ("CCA") with relation to 2020 accounts.

23 JUNE
Novo Banco, S.A. informs about MREL requirements

novobanco informed that it has been notified by the Bank of Portugal of its Minimum Requirement for own funds and Eligible Liabilities requirements, on a consolidated basis, as determined by the Single Resolution Board, required from 1 January 2022 and from 1 January 2026.

JUL

13 JULY
Novo Banco, S.A. informs about launch of senior preferred debt

novobanco informed that it has launched a senior preferred note in the amount of € 300 million, with a 3 year tenor and the option of early redemption by the bank at the end of year 2. The notes were subscribed at 100% price and have an annual interest rate of 3.5% in the first 2 years, and 3-month Euribor plus a margin thereafter.

AUG

2 AUGUST
Novo Banco, S.A. informs about 1H21 consolidated results

novobanco announced second consecutive profitable quarter with net profit of €137.7mn in the 1H21. This significant turn-around in profitability demonstrates the capacity of the business to consequently generate capital.

OCT

25 OCTOBER
Novo Banco announces its new image created with the voice of employees

28 OCTOBER
Novo Banco, S.A. informs about 9M21 consolidated results and Capital Markets Day

novobanco announced third consecutive profitable quarter with net profit of €154.1mn in the 9M21. This performance includes one-off negative effect of -€73.5mn (in 3Q21) from the liability management exercise ("LME"), which will generate future savings.

NOV

3 NOVEMBER
Novo Banco, S.A. informs about a decision of the Arbitration Court

novobanco informed that the dispute between the Resolution Fund and novobanco regarding the decision to fully implement IFRS 9 was decided by the Arbitral Tribunal to its disadvantage.

30 NOVEMBER
Novo Banco, S.A. informs about the conclusion of the sale of the Spanish branch business

novobanco informed that it has concluded the sale of its Spanish branch business, announced on April 5th 2021, to ABANCA.

DEC

7 DECEMBER
Novo Banco, S.A. informs about prudential treatment of CCA claims from year-end 2021 onwards

novobanco informed that it has received a letter from the Joint Supervisory Team noting that the claims under the CCA should only be recognised as Common Equity Tier 1 item, for the purpose of the own funds' calculation, once such payment occurs.

13 DECEMBER
Novo Banco, S.A. informs about issuance of senior preferred debt

novobanco informed that it has issued a senior preferred note in the amount of € 275 million, with maturity on September 15th 2023 and an early redemption option by the bank on September 15th 2022. The notes have an annual interest rate of 4.25%.

15 DECEMBER
Novo Banco, S.A. informs about capital increase by conversion of conversion rights

novobanco informed that following General Shareholders Meeting, the capital increase arising from the conversion of conversion rights relating to the 2015 fiscal year was approved. The conversion rights were issued under the special regime applicable to deferred tax assets approved by Law No. 61/2014, of 26 August, as amended. The share capital of novobanco increases to €6,054,907,314.

23 DECEMBER
Novo Banco, S.A. informs on Sale and Purchase Agreement of NPL and related exposures

novobanco informed on a Sale and Purchase Agreement, with a consortium of funds managed by West Invest UK Limited Partnership and LX Investment Partners III S.À.R.L. respectively, for the sale of its Project Orion (sale price €64.7mn).

23 DECEMBER
Novo Banco, S.A. informs about payment made by Fundo de Resolução under the CCA

novobanco informed that it has received from Fundo de Resolução a payment in the amount of €112mn related to the 2020 Contingent Capital Agreement ("CCA") call, which was pending.

27 DECEMBER
Novo Banco, S.A. informs on Sale and Purchase Agreement of NPL and related exposures

novobanco informed on a Sale and Purchase Agreement, with an entity owned by companies affiliated with and advised by AGG Capital Management Limited and Deva Capital Management Company S.L.U., for the sale of its Project Harvey (sale price €52.3mn).

At the date of signature of this report, the transaction was not materialized given that the authorization condition from Fundo de Resolução was not met.

1.2 ORGANISATION

1.2.1 Governance Model

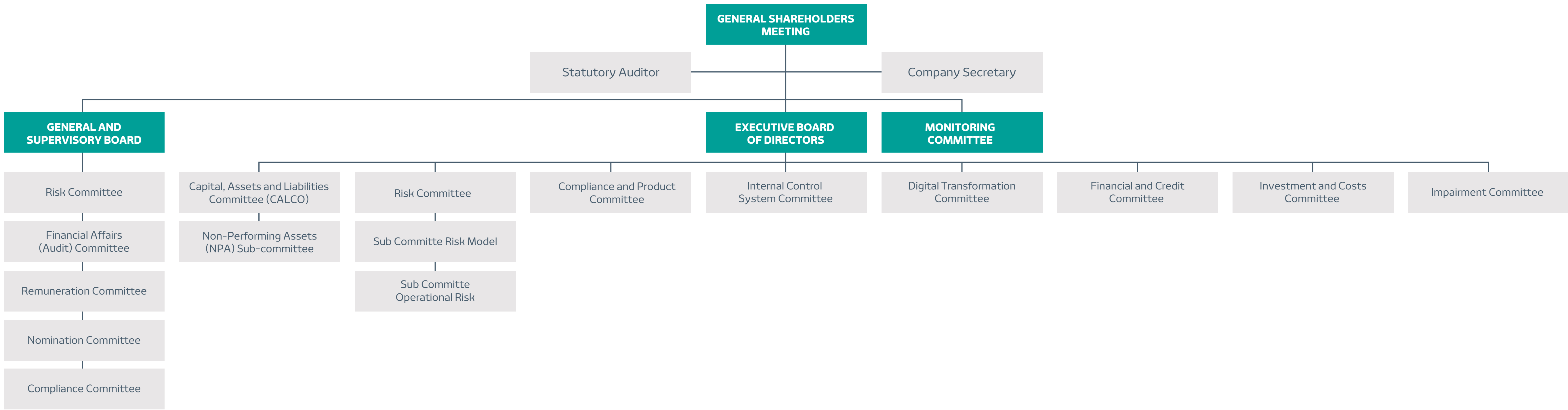
novobanco 's management relies on a governance model that is unique and distinct if compared with systemic banks within the Portuguese financial sector. In line with international best practices in management, and under the new shareholder structure, since 18 October 2017, the bank changed its governance model, having a General and Supervisory Board (GSB) and an Executive Board of Directors (EBD).

The GSB is responsible for regularly monitoring, advising and supervising the management of the bank and of the group companies, as well as for supervising EBD activities with regard to compliance with the relevant regulatory requirements of banking activity. The GSB meets on a monthly basis, and its Chairman maintains regular communication and dialogue with the CEO. In its activity, the GSB is supported by committees to which it delegates some of its powers: the Financial Affairs (Audit) Committee, the Risk Committee, the Compliance Committee, the Nomination Committee and the Remuneration Committee. The Financial Affairs (Audit) Committee also has competencies under the terms of the Commercial Companies Code. These committees are chaired by independent members of the GSB and its composition complies with the applicable legislation regarding the chairmanship and majority of independent members (when required).

The GSB has the responsibilities and powers provided for by law, by the Articles of Association and by its internal regulations, including the supervision of all matters related to risk management, compliance and internal audit, as well as granting prior approval on relevant matters for novobanco, which are detailed in the Articles of Association.

The EBD is responsible for the management of the bank, for the definition of the general policies and strategic objectives, and for ensuring the running of the business in compliance with the rules and good banking practices.

The governance model was designed to ensure monitoring of the bank's activity and achievement of its strategic objectives:



Further information is provided in the Corporate Governance Report, namely points 5.2.3 General Supervisory Board and 5.2.4 Executive Board of Directors.

1.2.2 Organisational structure

The composition of the corporate and statutory bodies, at the signature date of this Report, is as follows:

BOARD OF THE GENERAL MEETING

Chairman: Fernando Augusto de Sousa Ferreira
Vice-Chairwoman: Magdalena Ivanova Ilieva
Secretary: Mário Nuno de Almeida Martins Adegas

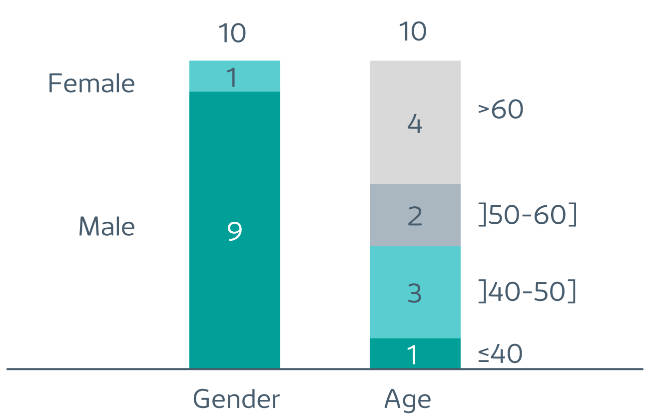
General and Supervisory Board (GSB)

									GSB COMMITTES				
Chairman	Vice-Chairman	Member		M/F	Independent	Date of 1st appointment	Expiry date	GSB Seniority	Financial Affairs	Risk	Compliance	Nomination	Remuneration
•			Byron James Macbean Haynes	M	•	18-10-2017	31-12-2024	4	•	•			C
	•		Karl-Gerhard Eick	M	•	18-10-2017	31-12-2024	4	C	•			•
		•	Donald John Quintin	M		18-10-2017	31-12-2024	4				•	
		•	Kambiz Nourbakhsh	M		18-10-2017	31-12-2024	4	•	•			
		•	Mark Andrew Coker	M		18-10-2017	31-12-2024	4			•	•	
		•	Benjamin Friedrich Dickgiesser	M		18-10-2017	31-12-2024	4		•			•
		•	John Ryan Herbert	M	•	18-10-2017	31-12-2024	4			•	C	
		•	Robert Alan Sherman	M	•	18-10-2017	31-12-2024	4			C	•	
		•	Carla Antunes da Silva	F	•	06-06-2018	31-12-2024	3				•	
		•	William Henry Newton	M	•	01-01-2021	31-12-2024	1		C			

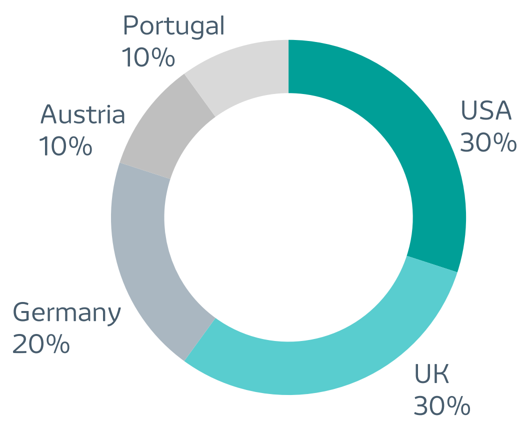
C - Chairman

Board diversity in several dimensions: age[6], geo provenance, education & professional background[7]

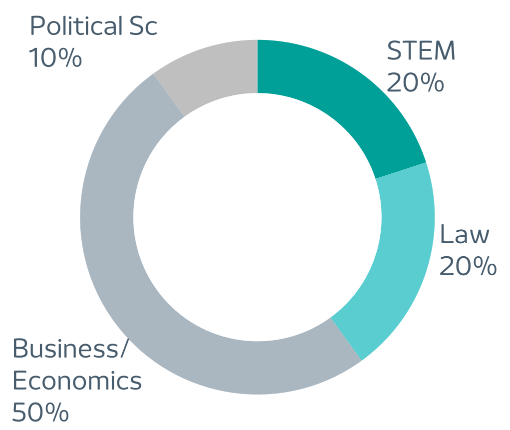
GENDER & AGE



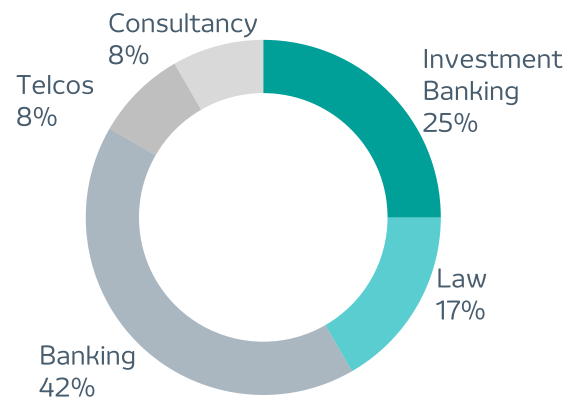
GEOGRAPHICAL PROVENANCE



EDUCATIONAL BACKGROUND



PROFESSIONAL BACKGROUND



6. As of December 31st 2021
7. STEM: science, technology, engineering and mathematics

EXECUTIVE BOARD OF DIRECTORS (EBD)

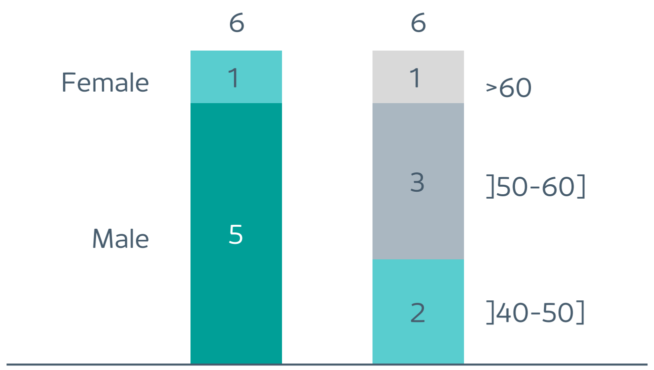
ANDRÉS BALTAR GARCIA LUIS RIBEIRO LUISA SOARES DA SILVA ANTÓNIO RAMALHO MARK BOURKE RUI FONTES

Chairman			M/F	Date of 1st appointment	Expiry date	EBD Seniority	Chairman of EBD Committes
•	António Manuel Palma Ramalho	Chief Executive Officer	M	18-10-2017*	31-12-2024	4	Financial and Credit; Digital Transformation;
	Mark George Bourke	Chief Financial Officer	M	04-03-2019	31-12-2024	3	Capital, Assets & Liabilities (CALCO); Costs and Investments;
	Rui Miguel Dias Ribeiro Fontes	Chief Risk Officer	M	18-10-2017*	31-12-2024	4	Risk; Internal Control System; Impairment;
	Luísa Marta Santos Soares da Silva Amaro de Matos	Chief Legal & Compliance Officer	F	18-10-2017*	31-12-2024	4	Compliance & Product;
	Luís Miguel Alves Ribeiro	Chief Commercial Officer (Retail)	M	18-09-2018	31-12-2024	3	
	Andrés Baltar Garcia	Chief Commercial Officer Corporate)	M	01-12-2020	31-12-2024	1	

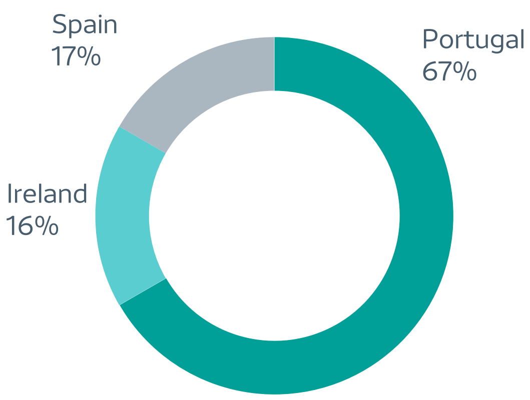
* Members of the board in the governance model previous to the sale of 75% stake to LoneStar.

Board diversity in several dimensions: age[8], geo provenance, education & professional background

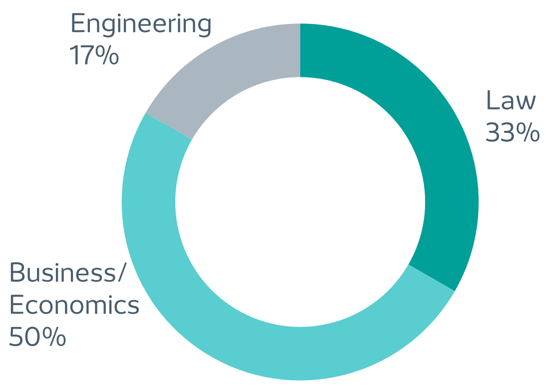
GENDER & AGE



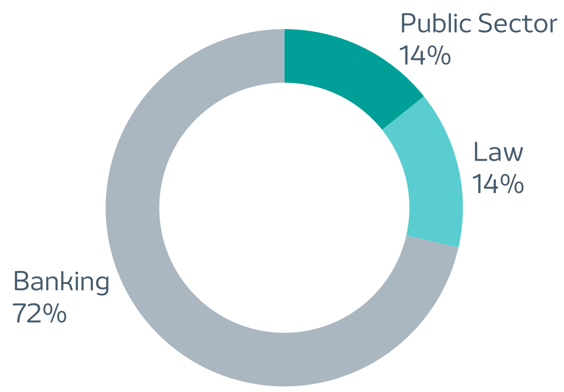
GEOGRAPHICAL PROVENANCE



EDUCATIONAL BACKGROUND



PROFESSIONAL BACKGROUND



MONITORING COMMITTEE

Chairman: José Bracinha Vieira
Member: Carlos Miguel de Paula Martins Roballo
Member: Pedro Miguel Marques e Pereira

STATUTORY AUDITOR

Ernst & Young, Audit & Associados – SROC, S.A., registered in the Portuguese Securities Market Commission ("CMVM") under number 20161480 and in the Portuguese Institute of Statutory Auditors ("OROC") under number 178, represented by António Filipe Dias da Fonseca Brás, registered in the CMVM under number 20161271 and in the OROC under number 1661, and by João Carlos Miguel Alves, as alternate statutory auditor, registered in the CMVM under number 20160515 and in the OROC under number 896.

COMPANY SECRETARY

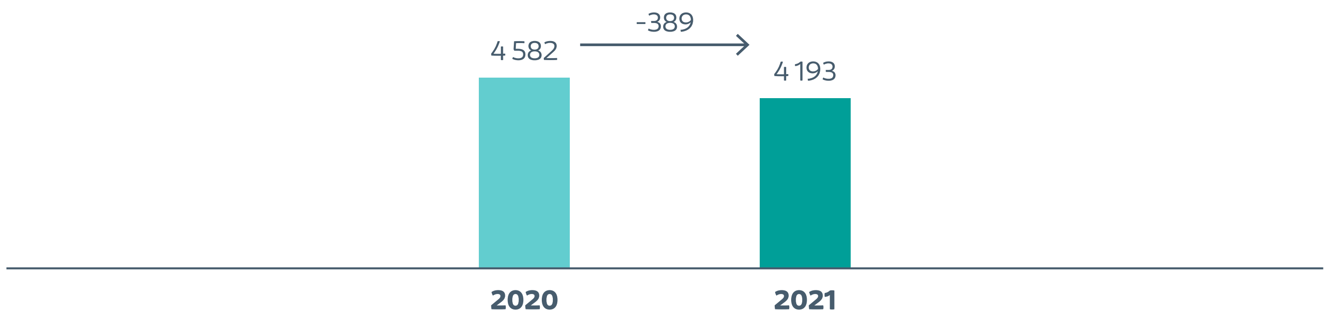
Mário Nuno de Almeida Martins Adegas
Ana Rita Amaral Tabuada Fidalgo (Alternate Secretary)

8. A 31 de dezembro de 2021

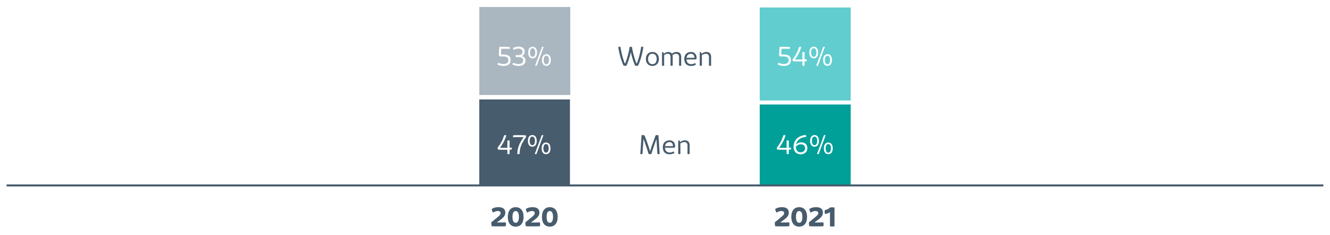
1.2.3 Human Capital

novobanco seeks to follow the best fair-process practices in decision-making, focusing not only on results but also on sustainability and involving the employees in the process of seeking results. The bank thus endeavours to be aware of the needs and difficulties experienced by employees throughout their life cycle and to meet their expectations, so as to contribute to their full development and allow them to fully unlock their potential and maintain their motivation.

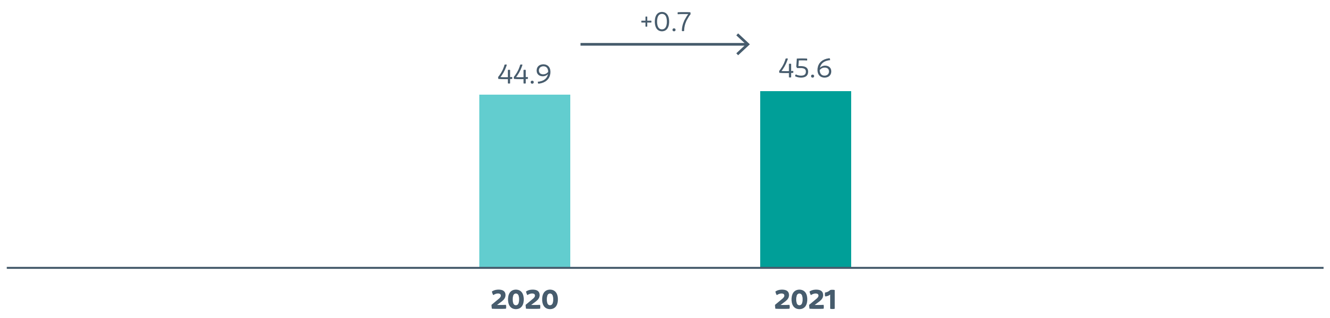
EVOLUTION OF NUMBER OF EMPLOYEES
(#)



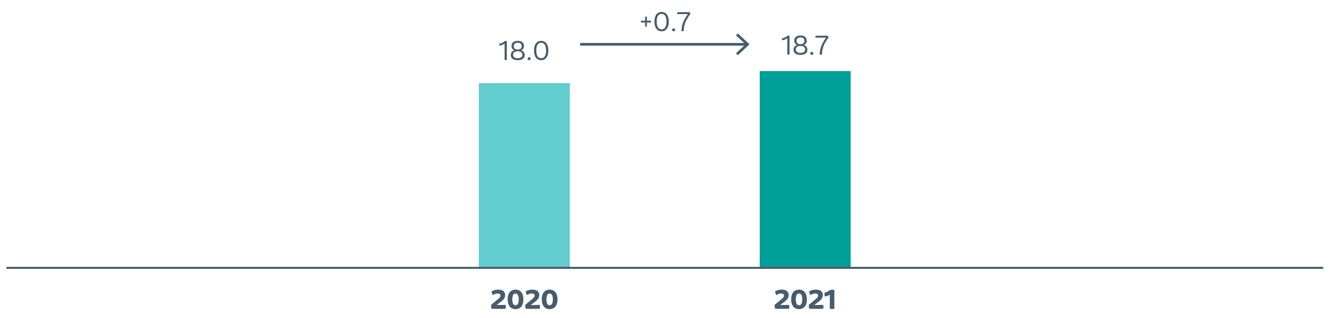
BREAKDOWN BY GENDER
(%)



AVERAGE AGE OF EMPLOYEES
(# years)



AVERAGE SENIORITY OF EMPLOYEES
(# years)



2.0 OUR STRATEGY

2.1 Overview
2.2 DGCOMP Commitments

Hernâni Oliveira
Rating Department - Senior Risk Analyst

2.1 OVERVIEW

With the beginning of a new phase, and with a new image, in October 2021, novobanco disclosed its new strategic plan to the capital market and the general public (link: https://youtu.be/OuoVeFCSZy8).

The new brand started with a challenge: "Be the voice of change". A challenge for all employees to take part in the creation of a more modern, more dynamic, more ours, visual identity, making it closer to a world that is also in permanent transformation. The collective voice of novobanco was self-created from the individual voice of each employee and graphically expressed in sound waves.

The new strategic plan factors in the macroeconomic conditions brought about by the pandemic, such as economic growth that benefits from the Recovery and Resilience Plan (RRP), in a low interest rate environment and with a challenging economic outlook. The initiatives implemented under the new strategic plan also aim to address the increasingly competitive environment in banking and financial services, and the growing pace of change and disruption. Successfully implementing disruptive initiatives and adopting ecosystem business models is critical for novobanco to keep exceeding customer experience expectations and maximising customer value, while maintaining profitable operations and ensuring capital efficiency.

novobanco's strategic plan comprises 4 pillars ...

A universal customer-centric bank

Focus on customers needs offering a disruptive value proposition

Omnichannel distribution of simple and innovative products and services

Simple & efficient

Leverage on simplification, process reengineering and technology

Streamline organizational structure to maximize effectiveness & flexibility

Profitable and safe risk profile

Enhance risk decisioning models and governance, improving asset quality

Disciplined risk-management, optimize capital allocation and RWAs

Talent & innovation

Develop our people & transform our workforce, to foster an innovation culture

Motivate & reward performance aligning individual objectives to strategic goals

A universal customer-centric bank

A historical know-how in the Corporate sector aligned with development of enhanced and value-added products and services:

novobanco online empresas
Corporate digital transition

- A new online service to simplify and support company's financial management on a daily basis, by being analytical and predictive.
- Designed to provide better user experience and enabling a more intuitive navigation (eg: new main page, menus, search, documentation and support).
- Option to include a financial aggregator (including external accounts), ensuring financial control and management of payments.

Investment Support Programs
EU funding

- Support clients to pursuit and implement opportunities driven by EU funding (RRP of €16.6bn; PT 2030 of €33.6bn), enabling solutions towards a more digitalized, innovative, sustainable and export-oriented economy.
- Partnering with specialists to provide a wide range of solutions: i) effectiveness of the application process; ii) guarantees and complementing EU-funding by offering tailored solutions; iii) bridge financing

Trade Finance
Helping Clients to go Global

- Strong presence in the Corporate Market, with particular focus on the exporting SMEs

  Trade Finance market share[1]: >20% (+0.9pp YoY)
- Supported by dedicated and specialized teams
- E2E supply chain finance
  Allowing customers to have integrated financing solutions tailored to their end-to-end needs

(1) 11/2021 data; novobanco analysis; sources: Banco de Portugal, APS, APFIPP

A partner for households, providing within the Retail sector a wide range of products and focused on margin and value-add service, together with a new strategic approach to consumer loans set to accelerate growth:

Home Buying

- Complete omnichannel: simulation to deed
- Simpler, quicker & more transparent
- Ecologically sustainable

MAIN FEATURES
1. "Approval in principle" & eligibility
2. Proposals: Save & manage
3. Online submission with documents upload
4. Documents: Dynamic checklist

~50%	of deeds with processes originated through mobile
~50%	of the proposals submitted online are new customers
- 40,000	liters of water with the elimination of paper

Small Business Finance

Fully Digital E2E credit for small businesses within novobanco online

Focusing on fast onboarding, time-to-decision and cash, increasing customer satisfaction and internal efficiency

Time to cash under 48 hours

Safe, intuitive, paperless, w/ efficiency gains

>70,000 frequent users

50%	at decision level efficiency gains
>80%	front office efficiency gains
100%	back-office efficiency gains

Consumer Finance
Hey!Pay

Joint-venture with Credibom, allowing the bank to enter the segment of POS (*point of sale*) credit;

- novobanco brings to the JV an extensive base of Medium and Small B2C companies, targeting consumer electronic, home & garden, consumer appliances, medical treatment, eyewear (...);
- Credibom brings its POS credit expertise and operational model from origination, to transformation, to recovery

5.9mM€	Portuguese consumer finance origination in 2020 (*source: BdP*)
+300	corporate relationship managers with deep industry experience
+600	companies w/ B2C operations interested in POS credit facility

Investment Advice

Dedicated platform w/ wide product range: a personalised investment advice tool to understand customer needs, product knowledge and experience, risk appetite, investment horizon and goals

Proposals submitted since inception (#)

Execution ratio (%) **>60%**

Serving customers with a full spectrum of channels with complementary roles:

OMNICHANNEL

ROLE

PoS	A/VTMs	Web and Mobile	Contact Hub	Remote RM & Mobile AC	Branches & corporate centers	Partners
Collect payments and expand functionalities to enable value-added services	Increase speed, convenience & cost-effectiveness in cash & equivalent transactions at the branch	Speed and convenience for simple servicing and sales, capture traffic and cross-fertilize other channels	Simple servicing, client remote support to self-served channels and inside sales/redirection to other channels	Increase remote servicing to mass to industrialize relationship and to affluent to steer to lower cost-to-serve channels	Smaller network of multi-format and modular branches; Promote retail and commercial collaboration via shared spaces	Network of partners to promote and expand client acquisition capabilities

DIGITAL (PoS, A/VTMs, Web and Mobile) — HUMAN REMOTE (Contact Hub, Remote RM & Mobile AC) — FACE TO FACE (Branches & corporate centers, Partners)

Providing an integrated customer experience leveraging on a new distribution/branch model and a best-in-class digital experience:

NEW DISTRIBUTION MODEL

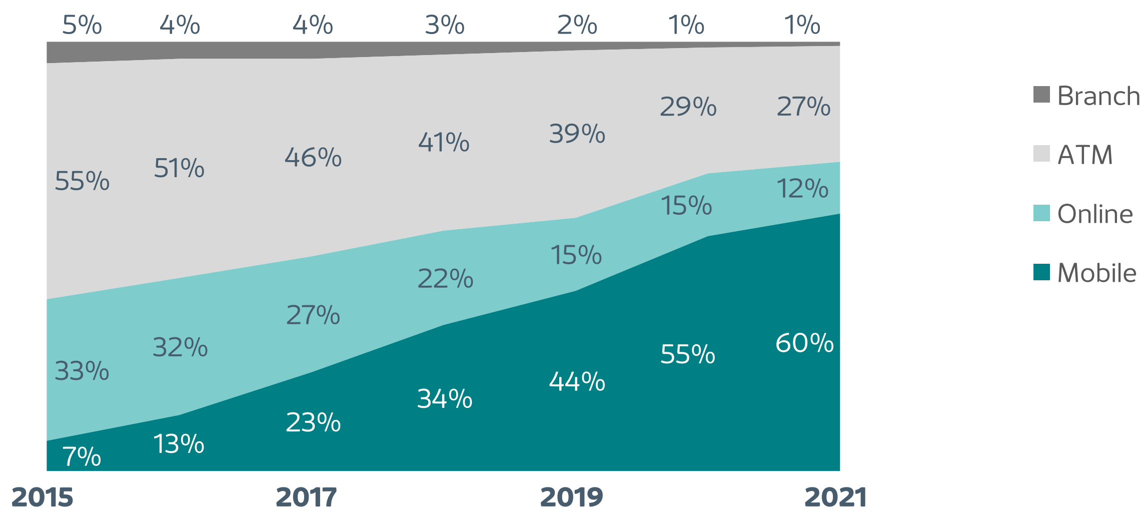
- An innovative functional layout focused on customer relationship, including a distinctive self-service, employee mobility and digital communication
- >100 branches already refurbished
- 3-yr nationwide investment program of ~€120mn

- **Promote customer relationship and business innovation with permanent digital & back-office support**
- **Act as a driving force for a thriving economy by being a focal point for individuals and companies**

Objective fulfillment in New branches **+5pp** vs old branches

DIGITAL EXPERIENCE

Evolution of Consumer touchpoints



+20% of mobile interactions YoY, leading to "mobile digital first" strategy

54% active digital clients (+7% YoY; +4pp YoY)

New channels, services and personalised customer experience allowed a rapid rise of digital, leading to +165% YoY increase in the share of digital sales (retail sales excluding term-deposits) and unlocking its potential going forward.

APR 19 – DIGITAL ACCOUNT OPENING
- Launch of the account opening using Digital Key Mobile solution

JUL 20 – ONLINE CREDIT FOR BUSINESS
- 1st E2E integrated digital credit solution for business

SEP 20 – DIGITAL ACCOUNT OPENING
- Launch of the video call account opening solution

OCT 20 – FINANCIAL AGREEGATOR
- Business Financial advisor
- Analytic & predictive

NOV 20 – APP: SMARTER
- Adaptable, customizable, inclusive & predictive (based on data science)

NOV 20 – HOMEBUYING
- From simulation to deed
- Simpler, quicker & more transparent
- Ecologically sustainable

DEC 20 – INVESTMENT FUNDS
- Subscription of third-party funds through digital channels extended;
- Morningstar app solution made available to customers

MAR 21 – LIFE INSURANCE
- Simulation and subscription of life insurance on digital channels is made available, offering an omni-channel experience

MAR 21 – NEW WEBSITE
- More customization, SEO and new features;
- Launch of online store for non-financial products

JUL 21 – PHYGITAL
- Available across the retail network, with ~40% operations coverage, saving +13 tons of paper in 2021

DEC 21 – NOVOBANCO ONLINE EMPRESAS
- New version of NBnetwork
- Increased user experience, more intuitive navigation and new functionalities

Simple & efficient

Implementation of accretive commercial operations leveraged by highly efficient operations, through a cost efficiency plan based on 4 levers that play a key role in novobanco distinctive value-proposition.

ROBOTIC PROCESS AUTOMATION

- Reduce of human error
- Reduce time needed to execute tasks / SLAs
- Flexibility: execution at non-critical hours
- Implementation of extra-controls
- Extra time for high-valued activities

~50 RPAs implemented

Bankcard: Activation	>550 processes per day
Corporate: upload of financial statements	>50 processes per day

E2E: RATIONALIZATION & REORGANIZATION

Rationalization initiatives (examples):
- Replace physical mail by digital communication;
- Contracts renegotiation (ie: archive & feeds)

Reorganization of processes (examples):
- Classification of IT projects by nature;
- Prioritization of projects based on impact in revenues and costs;
- Towards a leaner organization, more efficient and customer-centric.

NEW DISTRIBUTION MODEL

DIGITALIZATION

Profitable and safe risk profile

Implementing enhanced risk decisioning models improving profitability and asset quality:

ENHANCED RISK DECISIONING MODELS

- Maximize the obtainment of real credit guarantees ensuring the complete characterization in the system
- Ensure the periodic update of the characteristics of the guarantees received (ie: valuations, real estate insurance policies)
- Reduce capital consumption by guaranteeing on-time availability of corporate client's most recent financial statements and other qualitative information

DISCIPLINED RISK-MANAGEMENT AND CAPITAL ALLOCATION

- New Capital allocation model to determine each segment profitability (with strategic implications)
- Dynamic allocation of balance sheet growth between different segments and its capital impact
- Pricing of new loans is subject to RAROC hurdles

Leading to:

- **Disposal of Spanish operations (YE21)**
- **Disposal of stakes with high RWA density**

Talent & innovation

Implementing a new employee value proposition and talent development program for a renewed workforce:

NEW TRAINING PROGRAM

- To upgrade knowledge of Regulatory, Functional, Leadership and Digital
- Complement the new distribution models and the omni-channel approach

NEW LEADERSHIP MODEL

- Aiming a more agile organization
- Talent & Innovation program – from ideation, MVP and delivery; developing employees disruptive ideas aligned with strategy goals;

MORE FUNCTIONAL OFFICES

- Aiming to increased productivity
- New forms of organization and working models adapted to new spaces (ie: new headquarters; new branches, business centers)

TALENT MANAGEMENT PLAN

- Developing a new career journey, to attract talent and promotes diversity
- Technical vs management career with defined requirement/skills

TALENT LAB CHALLENGE – 2021 EDITION

Internal challenge to innovate while leveraging on employees' insights and diversity the perspectives that executives are exposed to.

- > 30 ideas selected and evaluated after each pitch
- > 10 ideas integrated into an intrapreneurship program and the remaining integrated into ongoing initiatives

1	**Promote Circular Economy**	Opportunities to be captured from the migration of the current business models to the "product as a service" model?
2	**Supporting clients in ESG transition**	How to support corporate clients in their business transition strategy to become compliant with ESG principles?
3	**Customized services and products**	How to customized the offer and predict the best moment to offer solutions to satisfy its customers' needs?

... with clear financial objectives and targets:

		2020	2021	MEDIUM-TERM TARGETS	
A UNIVERSAL CUSTOMER-CENTRIC BANK	COMMERCIAL LOAN BOOK (PERFORMING)	€23bn	€23.2bn	2-3% per year	LEVERAGING ON EXPERTISE & DIFFERENTIATION
SIMPLE AND EFFICIENT	NET INTEREST MARGIN	1.41%	1.42%	[1.30 – 1.50%]	SAFEGUARD INCOME
	COST-TO-INCOME	53%	48%	< 45%	EFFICIENT OPERATIONS
PROFITABLE AND SAFE RISK PROFILE	CoR	208pbs	60pbs	< 50 bps	ACHIEVE MODERATE RISK PROFILE
	NPL RATIO	8.9%	5.7%	< 5%	CONVERGING TOWARDS EU AVERAGE
TALENT & INNOVATION	ROTE (PRE-TAX)[1]	6%	8.8%	≥ 10%	DELIVER ATTRACTIVE RETURNS
	CET1	10.9%	11.1%	> 12%	ENHANCE CAPITAL POSITION

(1) 2020 RoTE considers recurrent activity only; Considers Underlying profitability pre-tax deducted by special tax on Banks and contributions to resolution funds

2.2 DGCOMP[9] COMMITMENTS

TARGETS FULLY ACHIEVED[10]

In the letter of commitment entered into in October 2017 by the Portuguese State and the European Commission in connection to the process of state aid to novobanco in the context of the sale of 75% of the bank's share capital to Lone Star, 2021 was set as the year of the end of the restructuring period.

These commitments are divided into three categories, and compliance therewith was being closely monitored and confirmed by the Monitoring Trustee appointed by the European Commission:

Structural commitments

Namely the divestment commitments in various geographies and businesses and the reduction of the bank's non-core assets, which included divestment of the insurance business - GNB Seguros -, concluded this year.

Behavioural commitments

Namely the establishment of ROE (Return on Equity) based pricing tools subject to defined minimum limits, restrictions on acquisitions, dividend distribution ban, ban on the exercise of voting rights by the minority shareholder (the Resolution Fund) and caps (of 10x the bank's average salary) on the remuneration of any employee or member of the bank's corporate bodies[11].

Viability commitments

interim targets and 2021 targets, notably Full Time equivalent (FTE) reduction targets, branch reduction targets, and Cost-to-Income targets, and the reinforcement of risk management policies, already carried out.

In the commitment letter and in the business plan submitted by the buyer - which served as the basis for the viability commitments established by the European Commission - it is made clear that the CCA assets on the balance sheet would be cleaned by the end of 2020, with 2021 as the year from which the viability of the bank would have to be proven.

Faithful to the commitments' basic business plan intrinsic, and despite real market conditions being much worse than projected in Lone Star's business plan - both in terms of the evolution of Euribor rates, and because it did not consider the result of the very negative economic repercussions of the pandemic crisis - novobanco demonstrated, in 2021, its viability, both by systematically posting positive results in all quarters of the year and through the success of the MREL issues made to meet the interim targets imposed by the Single Resolution Board for 1 January 2022.

Although at the closing date of this Report confirmation has not yet been obtained from the Monitoring Trustee, whose report for 2021 will only be delivered in the second quarter of 2022, the bank considers that the objectives imposed for 2021 should be considered fulfilled, including the objective of the Pre-Provision Income, which value fixed in 2017 for the year 2021 had been established based on market assumptions much more favourable than those that actually prevailed.

9. Directorate-General Competition – European Commission

10. Pending the Monitoring Trustee's certification

11. In view of the fulfilment of the commitments for 2019, this latter restriction ceased to be effective in July 2020.

3.0 OUR PERFORMANCE

3.1 Economic Context
3.2 Highlights
3.3 Novo Banco Group
3.4 Business Segments
3.5 Novo Banco Separate
3.6 Relevant Facts from the Activity and Subsequent Events
3.7 Main Risks and Uncertainties

Maria da Conceição Lopes Xavier
Operations Departament - Technician Assistant

Alexandre Fachada
Operations Departament - Operations Assistant

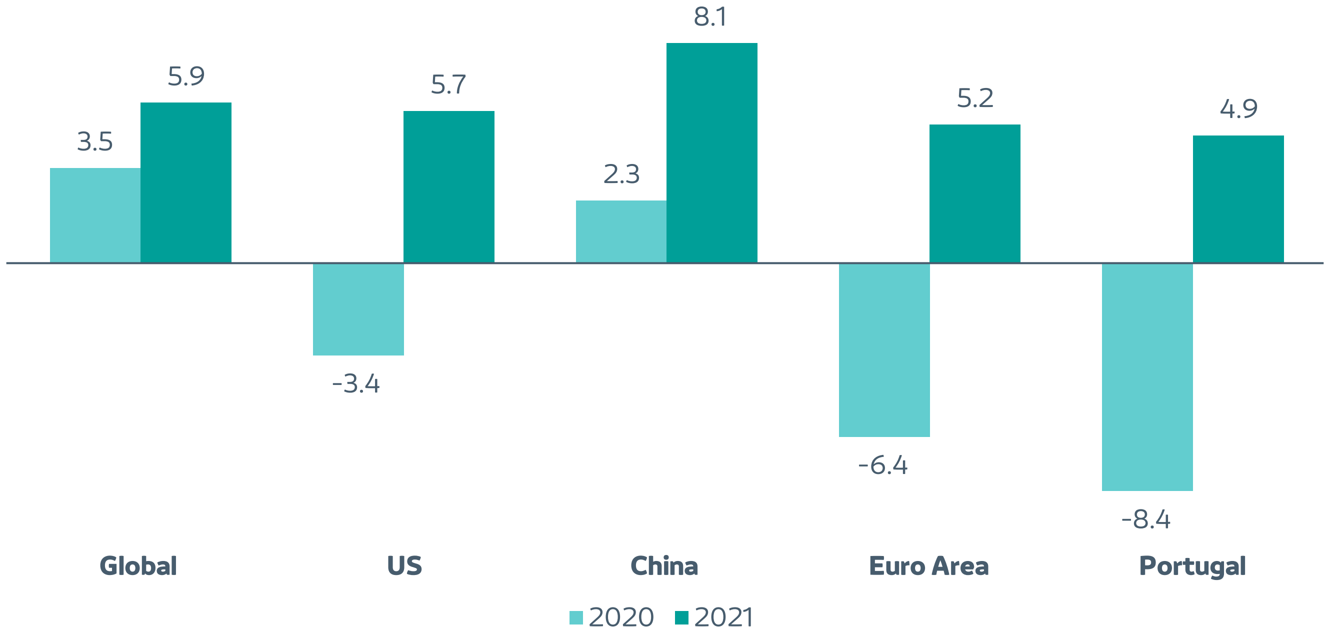
3.1 ECONOMIC CONTEXT

The year 2021 was marked by a recovery in global economic activity. After a 3.5% contraction in 2020, global GDP grew by 5.9% in 2021 as a whole. With the cumulative number of Covid-19 cases rising from 84 million to close to 288 million, especially with the spread of the new delta and omicron variants, the pandemic continued to subdue the behaviour of economic players. Even so, consumers and businesses showed an increasing capacity to adapt to the "Covid economy". Progress in vaccination, the gradual easing of restrictions on mobility and activity and aggressive monetary and fiscal policy stimuli supported growth, albeit unevenly across economies and with signs of deceleration in the second half of the year.

The US economy grew by 5.7% in 2021 (-3.4% in 2020), with the expansion in demand supported by the release of savings accumulated during the lock-down and by fiscal support to households. The household savings rate retreated from a high of 26% of disposable income in April 2021 to 6.9% at year-end. In China, economic activity expanded by 8.1% in 2021 (2.3% in 2020), slowing down throughout the year due to Covid-19 restrictions, problems with global supply chains and constraints caused by the scarcity and the cost of energy. Activity was also restrained by increased regulatory pressure from the authorities, with particularly acute effects on the real estate sector. In the Euro Zone, GDP grew by 5.2% in 2021 (-6.4% in 2020), underpinned by the normalisation trend in activity and the recovery in demand. However, growth was conditioned by delays in vaccination and the reopening of activity at the start of the year, with some economies being more exposed to the sectors most penalised by the pandemic, such as tourism and hospitality. In the Eurozone, the household savings rate retreated from a high of 25% of disposable income in the 2Q 2020 to 15% in the 3Q 2021.

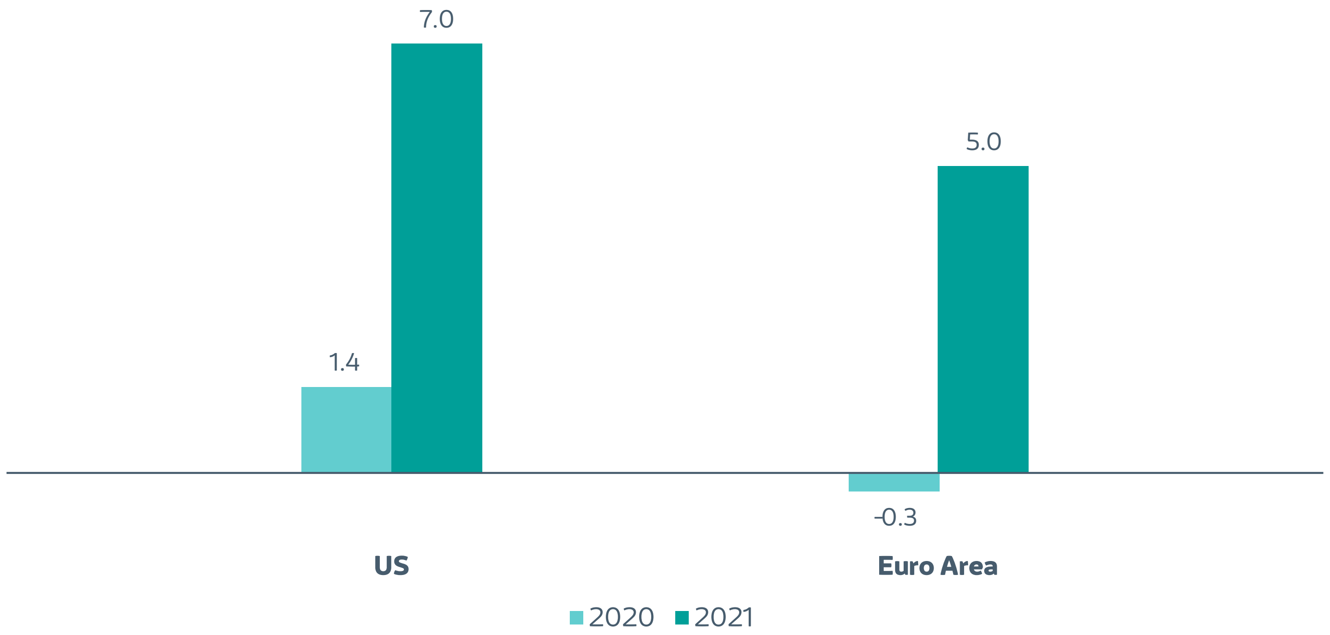
ANNUAL RATE OF CHANGE OF GDP

(%; Source: IMF, INE)



INFLATION RATE

(%; Source: Bloomberg, Eurostat)

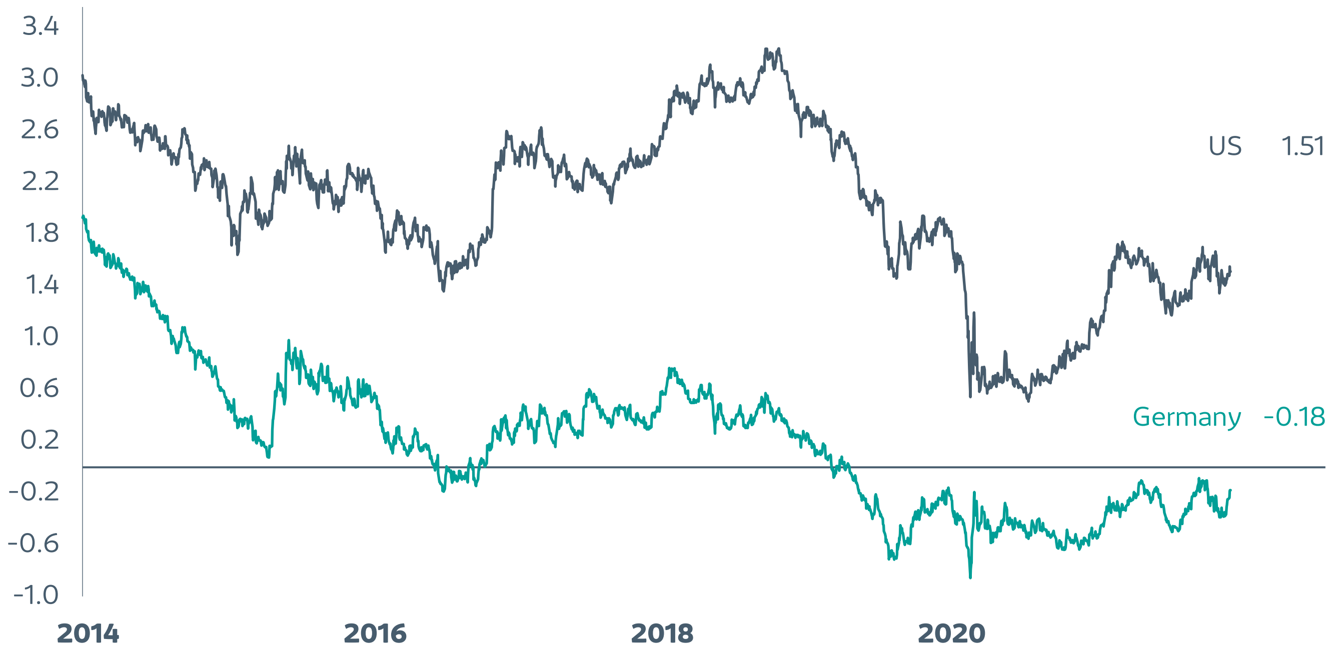


2021 was also marked by an increase in inflationary pressures, with the strong expansion of demand meeting with constraints in global supply chains and production activity, including shortages of labour, raw materials and intermediate consumption, logistical disruptions caused by delays in the transport of goods, a significant increase in energy costs, and forced production stoppages. The price of oil (Brent) rose by 50.2% in the year, to $77.8/barrel. In Europe, the price of natural gas spiked by 268%, driven by a strong increase in global demand in a context of unfavourable weather conditions and lower-than-expected wind power production. Supply was lower than normal, reflecting the fall in the supply of gas from Russia, the reduction in stocks and the effects of under-investment in production capacity. The imbalance between supply and demand and the increase in energy costs drove up inflation. The year-on-year change in producer prices accelerated from 1.6% to 9.6% in the US and from 0.4% to 23.7% in the Eurozone (with the rise in energy costs weighing more in Europe). Businesses partly passed on the increase in production costs to final prices, pushing up consumer price inflation from 1.4% to 7% in the US and from -0.3% to 5% in the Eurozone.

The main Central Banks perceived these developments as an essentially transitory phenomenon. However, recognising the risk of persisting higher inflation, several institutions initiated or signalled an easing of monetary stimuli. In the Euro Zone, the ECB kept benchmark interest rates unchanged (deposit facility rate at -0.5%). Yet, in September, it recalibrated downwards the monthly pace of purchases of debt securities under the pandemic emergency programme (PEPP) and, in December, confirmed the end of its net purchases of assets in March 2022. At the end of the year, the American Federal Reserve stopped classifying inflation as transitory and, as a result, stepped up the reduction of the monthly pace of asset purchases and signalled three 25 bps hikes in the fed funds target rate for 2022. Other central banks moderated their purchases of assets and/or initiated cycles of rising key rates.

Although with some intra-annual oscillations, the 3-month Euribor closed the year slightly below its level at the beginning of 2020, at -0.572%. This decline reflected the ECB's relatively more dovish stance compared with other central banks. But the recovery in growth, the rise in inflation expectations and the expected tapering of monetary stimuli have translated into a rise in long-term market interest rates, especially as from August. The 10-year Treasury yield rose from 0.91% to 1.51% (with a spike of over 1.74% in March). In the Eurozone, the Bund yield for the same maturity increased from -0.569% to -0.177%. In this context, the year-end was marked by a flattening of the yield curve (10Y-2Y) in the US and the Eurozone. The euro lost 6.9% against the dollar in 2021, to €/$1.137, with the US currency benefiting from the more dynamic US economy and the Fed's relatively more hawkish stance.

EVOLUTION OF PUBLIC DEBT YIELDS 10YR
(%; Source: Bloomberg)



EVOLUTION OF STOCK MARKET INDEX
(January 2019 = 100; Source: Bloomberg)

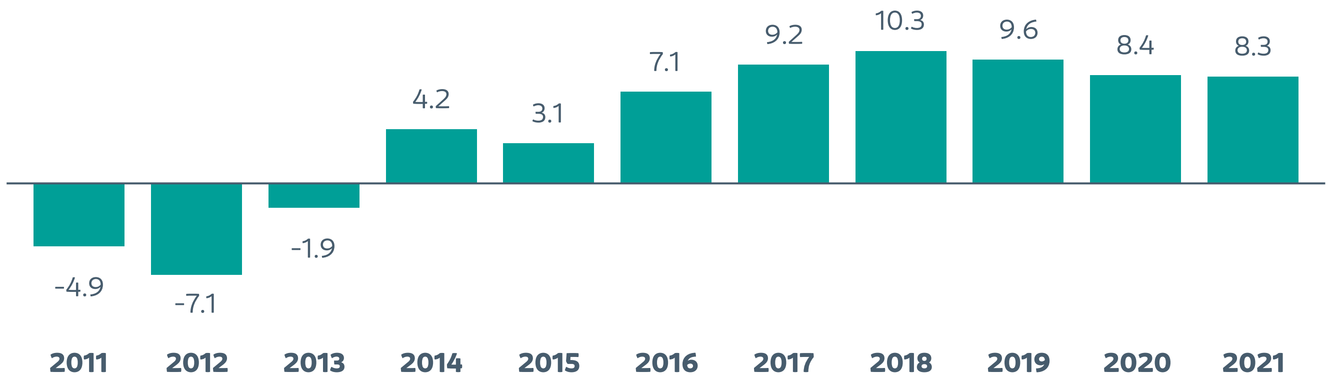
The upturn in growth and the environment of ample liquidity provided by expansionary monetary policies supported a value increase in risk assets in 2021. On the equity market, the main indices registered significant gains, notwithstanding an increase in volatility at the end of the year, due to rising inflation and market interest rates. In the US, the S&P 500 and the Nasdaq advanced by 26.9% and 21.4%, respectively. In Europe, the Euro Stoxx and DAX gained 22.3% and 15.8%. In Portugal, the PSI-20 was up by 13.7%. Favourable financing conditions and risk propensity also benefited other asset classes. The credit market saw a narrowing of spreads, despite a sharp increase in corporate debt issues. The context of low yields also favoured investment in alternative assets, including commodities, private debt, digital assets and real estate, among others. Housing prices extended the growth trend already observed in 2020, with the most recent records pointing to year-on-year increases of 18.4% in the US, 4.7% in China and 6.8% in the Eurozone.

In Portugal, the economy remained constrained by Covid-19, suffering the effects of a new lock-down in Q1 that led to a contraction of GDP. Activity visibly recovered in the following quarters, though remaining below pre-Covid levels. In the full year, GDP grew by 4.9% in real terms (-8.4% in 2020), with contributions of 3.1 p.p. from domestic demand and 1.6 p.p. from net external demand. Private consumption grew by 5.1%, driven by the rise in disposable income and the reduction in the household savings rate, which allowed making expenses that had been postponed by the confinement. The household savings rate retreated from 12.8% to 10.6% of disposable income, still above its level in 2019 (7.2%). Gross fixed capital formation grew by 4.9% in 2021, in line with the recovery in demand and benefiting, in the second half of the year, from the inflow of European funds. Corporate capital expenditure was, however, restricted by disruptions in the supply chains, which penalised industrial production. Industrial production grew by 2.4% in the year, though remaining below pre-Covid levels. The same disruptions affected the growth of exports, which nevertheless grew by 9.5% in 2021. Foreign sales of goods bounced back to the levels observed before the pandemic, but the same cannot be said for exports of services, still penalised by the impacts of Covid-19 on tourism. In this sector, progress in vaccination and the reopening of the economy allowed a relatively strong recovery in domestic demand. Overnight stays by residents in tourist establishments rose by 36% year-on-year, which is around 10% below 2019 levels. Overnight stays by non-residents increased by 45% compared to 2020, but remained 63% below 2019 levels.

Temporary business and labour market support measures, including the simplified layoff scheme, gradual support for business recovery and loan moratoria (ending in September), mitigated the economic impacts of the pandemic. The unemployment rate retreated from 7% to 6.6% of the labour force. The real estate sector proved resilient, with house prices rising by 8.3% in average annual terms, which is close to their growth in 2020. Average annual inflation rose from 0% to 1.3% (1.7% in goods and 0.6% in services), with the year-on-year change in prices reaching 2.7% in December. This movement was mainly driven by the increases in energy and food prices, which rose year-on-year by 11.2% and 3.2%, respectively. The yield on the Portuguese 10-year treasury bonds rose from 0.03% to 0.465%, with the spread vs. the Bund widening by 4 bps only, to 64 bps.

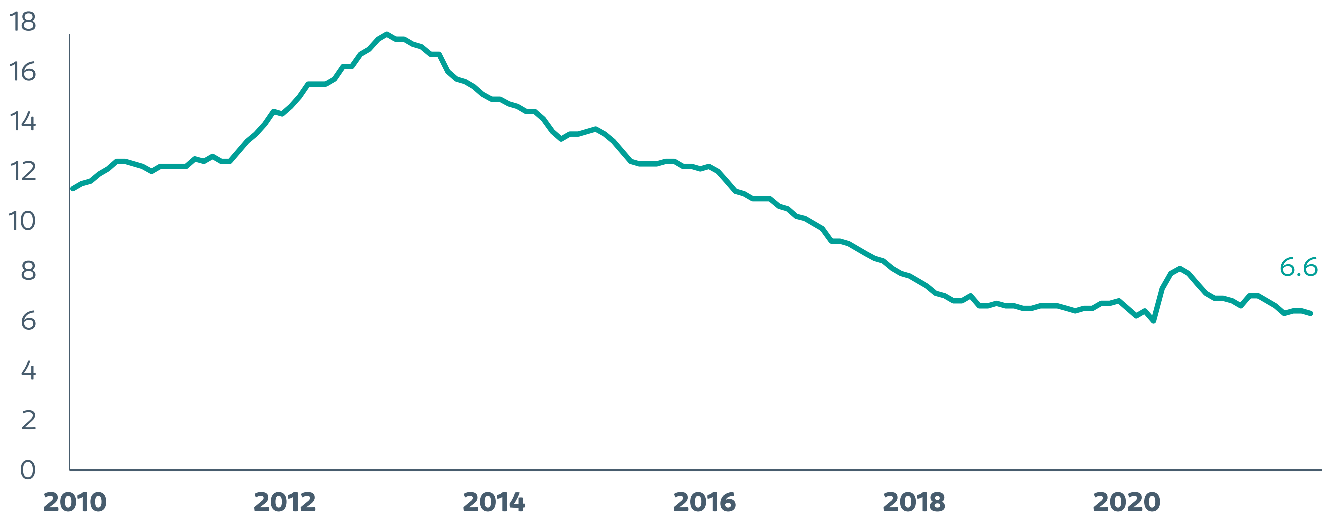
EVOLUTION OF THE HOUSING PRICE INDEX IN PORTUGAL

(% of average annual change rate; Source: INE)



EVOLUTION OF UNEMPLOYMENT RATE IN PORTUGAL

(% of active population; Source: INE)



2022 should be marked by continued global economic growth above pre-Covid records, but decelerating compared to 2021. Base effects will tend to be less favourable and monetary and fiscal policy stimuli less intense, with the main central banks raising benchmark interest rates (US) or reducing asset purchases (Eurozone). Growth should stem from a gradual normalisation of economic activity, with Covid-19 evolving from pandemic to endemic and activity in services recovering more visibly. The moderation of demand and some improvement in supply constraints should allow for moderation in inflation, especially in the second half of the year.

In any case, some increase in market interest rates is expected. For Portugal, a slight acceleration of activity is expected in 2022, with GDP growing by around 5.6%. This is explained by the recovery profile of the tourism activity, benefiting exports, and by the first impacts of the Recovery and Resilience Plan on domestic demand, supporting investment. Overall, the main negative risks include a longer persistence of inflation, forcing more aggressive interest rate hikes than expected by central banks. Tighter monetary and financial conditions could lead to a revaluation of assets in the financial and real estate markets, penalising investor confidence. New and more disruptive waves of the pandemic could delay the normalisation of supply chains. Higher than expected energy price increases could penalise production and consumption. Confidence and spending propensity may be constrained by uncertainty and instability generated by political events. The evolution of economic activity will also be conditioned by some structural trends, including, among others, digitisation and automation, the energy transition, and new consumption habits and demands.

3.2 HIGHLIGHTS

HIGHLIGHTS

FIRST YEAR-END WITH POSITIVE PROFITABILITY

- **novobanco announces an annual net profit of €184.5mn** (vs -€1,329.3mn in 2020). This achievement represents the first annual positive net income of the Group since its creation, an important milestone for the end of the restructuring process initiated in 2017.

  In 2021, underlying net income (pre-tax) would be €282.7mn, equivalent to 8.8% RoTE (Return on Tangible Equity; pre-tax).

- **Commercial banking income**, comprising Net interest income (+3.3% YoY) plus Fees and commissions (+3.9% YoY), **increased 3.5% YoY to €855.9mn in 2021** (1Q21: €208.5mn; 2Q21: €216.3mn; 3Q21: €213.2mn; 4Q21: €217.9mn). The improvement in net interest income reflects the reduction in average deposit rates, the lower cost of long-term financing and the maintenance of the pricing discipline.
- **The Bank's core operating income** (commercial banking income minus operating costs) **increased to €447.6mn (+13.3%; +€52.4mn YoY)**, driven both by improved commercial banking income and reduced operating costs (-5.4%; -€23.5mn YoY), as a result of continued digital investment and operational optimisation.
- **Further improvement of Cost to Income ratio**, excluding markets and other operating results, reaching **47.7%** (vs 52.2% in 2020);
- **Credit impairments for credit totalled €149.4mn**, including €71.8mn impairments for Covid-19 related risks, a YoY reduction of -71.5% or -€375.1mn. **The cost of risk was 60bp**, or 31 bps excluding impairments for Covid-19 related risks, demonstrating the successful ongoing de-risking strategy of the portfolio.

SOLID BUSINESS MODEL WITH RESILIENT LENDING AND DEPOSITS GROWTH

- **Net customer loans at €23.7bn**, broadly stable across corporate, mortgage and consumer loan portfolio, also taking into account NPL disposals during the year;
- Total customer funds increased by +6.6% YTD, **with customer deposits increasing by 4.7% (+€1,222mn)**, reflecting the continued confidence of clients in novobanco;
- The continuous investment in digitalisation, set to provide a unique omnichannel customer experience based on the new distribution model and digital transformation, led to an **increase by 7% YoY in active digital customers to 54.4% of total customer** as of December 2021 and to a significant increase in the number of products sold through the digital channels (+165% YoY; excluding deposits, which traditionally have high digital penetration). The increased importance of digital in sales was particularly visible in Consumer loans (+238% YoY to 1.1k loans granted digitally; 6% of total sales vs 2% in 2020) and Investment Funds (+231% YoY to 28.2k units; 27% of total sales vs 14.7% in 2020);
- **Continued reduction of the non-performing loans (NPL) ratio to 5.7% (Dec/20: 8.9%), with a coverage ratio of 71.4%**, demonstrating the continued de-risking of the balance sheet and reflecting progress towards achieving an NPL ratio in line with European average.

STABLE CAPITAL RATIOS AND LIQUIDITY RATIO

The Bank is well positioned to continue to support households and corporate customers, with a CET 1 ratio of 11.1% (total capital ratio of 13.1%), liquidity ratio (LCR) of 182% and NSFR of 117%, as of 31 December 2021.

MAIN HIGHLIGHTS	31-Dec-21	31-Dec-20
ACTIVITY (mn€)		
Net Assets	44 619	44 396
Customer Loans (gross)	24 932	25 217
Customer Deposits	27 315	26 093
Equity	3 149	3 147
SOLVENCY (3)		
Common EquityTier I / Risk Weighted Assets.	11.1%	10.9%(4)
Tier I / Risk Weighted Assets	11.1%	10.9%(4)
Total Capital / Risk Weighted Assets (3)	13.1%	12.8%(4)
Leverage Ratio	6.0%	6.2%(4)
LIQUIDITY (mn€)		
European Central Bank Funding (2)	2 742	4 740
Eligible Assets for Repo Operations (ECB and others), net of haircut	16 476	16 684
(Total Credit - Credit Provision) / Customer Deposits (1)	86%	90%
Liquidity Coverage Ratio (LCR)	182%	140%(4)
Net Stable Funding Ratio (NSFR)	117%	112%(4)
ASSET QUALITY		
Overdue Loans > 90 days / Customer Loans (gross)	1.2%	2.4%
Non-Performing Loans (NPL) / (Customer Loans + Deposits with banks and Loans and advances to banks)	5.7%	8.9%
Credit Provision / Overdue Loans > 90 days	430.2%	262.2%
Credit Provision / Customer Loans (gross)	5.0%	6.3%
Cost of Risk	0.60%	2.08%
PROFITABILITY		
Net Income for the Period (mn€)	184.5	-1329.3
Income before Taxes and Non-controlling interests / Average Net Assets (1)	0.5%	-2.9%
Banking Income / Average Net Assets (1)	2.9%	1.4%
Income before Taxes and Non-controlling interests / Average Equity (1)	7.1%	-32.0%
EFFICIENCY		
Operating Costs / Banking Income (1)	42.0%	69.9%
Operating Costs / Commercial Banking Income	47.7%	52.2%
Staff Costs / Banking Income (1)	24.0%	52.2%
EMPLOYEES (No.)		
Total	4 193	4 582
-Domestic	4 165	4 560
-International	28	22
BRANCH NETWORK (No.)		
Total	311	359
-Domestic	310	358
-International	1	1

(1) According to Banco de Portugal Instruction n. 16/2004, in its version in force
(2) Includes funds from and placements with the ESCB; positive = net borrowing; negative = net lending
(3) Preliminary
(4) Updated values

3.3 NOVO BANCO GROUP (CONSOLIDATED)

3.3.1 Results

At the end of 2021, novobanco reported a profit of €184.5mn (+€1,513.8mn YoY). The change in profit is driven by (i) the improvement in the Bank's operating income (+€377.7mn), (ii) the lower level of impairments and provisions (-70.4%; -€838.7mn) and (iii) the recognition in 2020 of the loss of €300.2m in the revaluation of the Restructuring Funds.

In 2021 the underlying net income (pre-tax) would be €282.7mn, equivalent to a RoTE (Return on Tangible Equity; pre-tax) of 8.8%. The underlying net income (pre-tax) is net of special tax on Banks, and excludes market results and the extraordinary effects of the debt buyback (LME), the change in the pension fund actuarial calculation methodology, Covid provisions and other provisions, including a contingent liability resulting from the change to the real estate tax introduced by the 2021 State budget.

mn€

INCOME STATEMENT	31-Dec-21	31-Dec-20	Change	
			absolute	%
Net Interest Income	573.4	555.1	18.3	3.3%
Fees and Commissions	282.5	271.9	10.6	3.9%
Commercial Banking Income	**855.9**	**827.0**	**28.9**	**3.5%**
Capital Markets Results	75.9	-72.5	148.4	...
Other Operating Results	40.4	-136.6	177.0	...
Banking Income	**972.2**	**617.9**	**354.3**	**57.3%**
Operating Costs	408.4	431.8	-23.5	-5.4%
Net Operating Income	**563.8**	**186.1**	**377.7**	**...**
Restructuring funds - independent valuation	-	-300.2	300.2	100.0%
Net Impairments and Provisions	**352.7**	**1 191.5**	**-838.7**	**-70.4%**
Credit	149.4	524.4	-375.1	-71.5%
Securities	47.8	41.0	6.8	16.5%
Other Assets and Contingencies	155.6	626.0	-470.4	-75.1%
Income before Taxes	**211.1**	**-1 305.6**	**1 516.8**	**...**
Corporate Income Tax	-15.2	1.1	-16.3	...
Special Tax on Banks	34.1	32.8	1.3	4.1%
Income after Taxes	192.2	-1 339.4	1 531.6	...
Non-Controlling Interests	7.7	-10.1	17.8	...
Net Income for the period	**184.5**	**-1 329.3**	**1 513.8**	**...**

mn€

INCOME STATEMENT	1Q21	2Q21	3Q21	4Q21	QoQ Change absolute	QoQ Change %
Net Interest Income	145.7		140.9	143.2	2.3	1.6%
Fees and Commissions	62.8	72.8	72.3	74.6	2.3	3.2%
Commercial Banking Income	**208.5**	**216.3**	**213.2**	**217.9**	**4.6**	**2.2%**
Market Results	52.8	40.5	-59.7	42.2	101.9	...
Other Operating Results	12.2	-41.3	30.3	39.2	8.9	29.3%
Banking Income	**273.5**	**215.5**	**183.9**	**299.3**	**115.4**	**62.8%**
Operating Costs	102.7	101.4	101.6	102.6	1.1	1.0%
Net Operating Income	**170.8**	**114.1**	**82.3**	**196.6**	**114.3**	**...**
Restructuring funds - independent valuation	0.0	0.0	0.0	0.0	0.0	...
Net Impairments and Provisions	**61.8**	**27.4**	**70.4**	**193.1**	**122.7**	**...**
Credit	54.9	29.8	30.3	34.4	4.1	13.5%
Securities	0.9	15.1	1.4	30.4	29.0	...
Other Assets and Contingencies	6.0	-17.5	38.7	128.4	89.6	...
Income before Taxes	**109.0**	**86.7**	**11.9**	**3.5**	**-8.4**	**-70.4%**
Taxes	4.2	16.9	-8.1	-28.2	-20.1	...
Special Tax on Banks	32.8	1.5	0.0	-0.1	-0.1	...
Income after Taxes	**72.0**	**68.4**	**20.0**	**31.8**	**11.9**	**59.4%**
Non-controlling Interests	1.3	1.4	3.6	1.4	-2.2	-61.4%
Net Income	**70.7**	**67.0**	**16.4**	**30.4**	**14.1**	**86.0%**
Income before Taxes	**109.0**	**86.7**	**11.9**	**3.5**		
Special tax on Banks	-32.8	-1.5	0.0	0.1		
Market Results	-52.5	-35.4	-11.1	-39.2		
LME one-off	0.0	0.0	73.5	0.0		
Pension Fund	0.0	0.0	0.0	-37.2		
Covid Provisions	21.8	13.4	5.0	31.6		
Other one-off provisions	10.0	0.0	0.0	125.9		
Underlying Income Before Tax	**55.5**	**63.3**	**79.3**	**84.8**		

In 2021, novobanco Group generated positive net income in all quarters, with quarter-on-quarter progress when excluding the extraordinary charges.

Key features of the activity in the year are the following:

- Increase in commercial banking income, which amounted to €855.9mn (+3.5%; +€28.9mn YoY), driven by higher net interest income (+3.3%; +€18.3mn YoY), and an improvement in fees and commissions (+3.9%; +€10.6mn YoY);
- Capital markets results of +€75.9mn in 2021 mostly due to gains from the hedging of interest rate risk, which offset the negative impact (-€73.5mn) of the LME performed in Q3;
- Operating costs are lower YoY (-5.4%; -€23.5mn), standing at €408.4mn (1Q21: €102.7mn; 2Q21: €101.4mn; 3Q21: €101.6mn; 4Q21: €102.6mn), which reflects on the one hand the focus on cost efficiency achieved with processes simplification and optimisation, and on the other hand the investment in the business and in digital transformation, with both contributing to an improvement of the Bank's efficiency ratios;
- In 2021, net impairments and provisions amounted to €352.7mn (including €71.8mn impairment for Covid-19 related risks), representing a YoY reduction of -€838.7mn (-70.4%).

NET INTEREST INCOME

Net interest margin is stable in 2021 when compared with 2020 (2020: 1.41%; 2021: 1.42%), with a 17bp reduction in the average liability rate, which offset the decrease in the average asset rate as a result of the lower loans rates.

mn€

NET INTEREST INCOME (NII) AND NET INTEREST MARGIN (NIM)	31-Dec-21			31-Dec-20		
	Average Balance	Average Rate	Income / Costs	Average Balance	Average Rate	Income / Costs
INTEREST EARNING ASSETS						
Customer Loans	24 995	2.01%	509	24 939	2.13%	541
Mortgage Loans	9 905	1.04%	104	9 987	1.20%	122
Consumer Loans and Others	1 380	5.86%	82	1 328	6.24%	84
Corporate Lending	13 710	2.33%	323	13 624	2.42%	335
Money Market Placements	4 602	0.07%	3	2 993	0.54%	16
Securities and Other Assets	10 241	1.28%	133	10 665	1.26%	137
INTEREST EARNING ASSETS AND OTHER	**39 838**	**1.60%**	**645**	**38 597**	**1.77%**	**694**
INTEREST BEARING LIABILITIES	38 148	0.18%	68	36 782	0.35%	132
Customer Deposits	26 580	0.19%	51	25 787	0.27%	72
Money Market Funding	10 497	-0.51%	-54	9 913	-0.13%	- 13
Other Liabilities	1 070	6.53%	71	1 081	6.70%	74
OTHER NON-INTEREST BEARING LIABILITIES	1 690	-	-	1 815	-	-
INTEREST BEARING LIABILITIES AND OTHER	**39 838**	**0.17%**	**68**	**38 597**	**0.34%**	**132**
NIM / NII (without stage 3 impairment adjustment)		**1.43%**	**577**		**1.43%**	**562**
Stage 3 impairment			**-4**			**- 6**
NIM / NII		**1.42%**	**573**		**1.41%**	**555**

The average rate on customer loans was 2.01%, lower YoY (-12bps) given the different business mix (+1bps) and the lower interest rate environment (-13bps). The average customer loans balance slightly increased YoY despite impact by the loan portfolio sales (Projects Wilkinson and Orion).

The average balance of deposits was €26.6bn, with an average interest rate of 0.19% (-8bps YoY), and Money Market Funding was €10.5bn, with -0.51% average interest rate, benefiting from the conditions of the ECB long-term refinancing operations.

The Group therefore was able to increase the spread between the rate on interest earning assets (1.60%; 2020: 1.77%) and the cost of liabilities (0.17%; 2020: 0.34%) with a positive impact on overall net interest margin (1.42%; 2020: 1.41%).

FEES AND COMMISSIONS

Fees and commissions amounted to €282.5mn in 2021, representing a 3.9% YoY increase (+€10.6mn).

This positive development is driven mainly by (i) a strong performance in Payments Management (+5.3%; +€5.7mn YoY) due to higher volume of transactions and pricing, and (ii) volume increase in the Asset Management & Bancassurance (+10.6%; +€6.5mn), reflecting more robust commercial activity and increased customer appetite.

mn€

FEES AND COMMISSIONS	31-Dec-21	31-Dec-20	Change	
			absolute	%
Payments Management	114.2	108.5	5.7	5.3%
Commissions on Loans, Guarantees and Similar	85.5	86.3	-0.8	-1.0%
Asset Management and Bancassurance	68.0	61.5	6.5	10.6%
Advising, Servicing and Other	14.8	15.6	-0.8	-5.0%
TOTAL	**282.5**	**271.9**	**10.6**	**3.9%**

CAPITAL MARKETS AND OTHER OPERATING RESULTS

The results of financial operations were positive by €75.9mn mostly due to hedging of interest rate risk which more than offset the negative impact of LME concluded in the 3rd quarter (-€73.5mn). The LME consisted in the buy-back of expensive senior zero-coupon bonds (~7% yield) with long maturity and will generate future savings of ~€475mn (until maturity).

Other operating results amounted +€40.4mn, including gains in investment properties (+€35.4mn), the change in the pension fund actuarial calculation methodology (+€37.2mn), the costs related with contributions to the Single Resolution Fund (-€25.3mn) and to the Portuguese Resolution Fund (-€15.2mn).

OPERATING COSTS

Operating costs decreased 5.4% YoY, reflecting the continued optimisation and simplification of the organisation and its processes.

mn€

OPERATING COSTS	31-Dec-21	31-Dec-20	Change	
			absolute	%
Staff Costs	233.3	245.6	- 12.3	-5.0%
General and Administrative Costs	141.1	153.2	- 12.1	-7.9%
Depreciation	34.0	33.1	0.9	2.8%
TOTAL	**408.4**	**431.8**	**- 23.5**	**-5.4%**

Staff costs totalled €233.3mn (-5.0% YoY), maintaining the downward trend of recent years, and as a result of increased efficiency. As of 31 December 2021, novobanco Group had 4,193 employees (Dec/20: 4,582; -389 YoY).

General administrative costs decreased 7.9% YoY, to €141.1mn, benefiting from the implementation of efficiency measures related to reorganisation and rationalisation of processes.

The total number of branches as of 31 December 2021 was 311 (Dec/20: 359; -48 branches YoY).

NET IMPAIRMENTS AND PROVISIONS

In 2021, novobanco Group recorded net impairments and provisions amounting to €352.7mn (including additional impairment for Covid-19 related risks and a provision for a contingency liability for aggravated taxes introduced by the 2021 State budget), a reduction compared to 2020 (-70.4%; -€838.7mn).

The cost of risk reached 60bps (or 31bps without the impairment for Covid-19 related risk).

mn€

NET IMPAIRMENTS AND PROVISIONS	31-Dec-21	31-Dec-20	Variação	
			absolute	%
Customer Loans	149.4	524.4	-375.1	-71.5%
Securities	47.8	41.0	6.8	16.5%
Other Assets and Contingencies	155.6	626.0	- 470.4	-75.1%
TOTAL	**352.7**	**1 191.5**	**-838.7**	**-70.4%**

3.3.2 Balance Sheet and Activity

CUSTOMER LOANS

novobanco's strategy is one of supporting the domestic business community combined with a robust and disciplined lending policy. This support has been provided across all industry sectors and all companies, with an emphasis on exporting SMEs and those that focus on innovation in their products, services or production systems.

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CUSTOMER LOANS	31-Dec-21	31-Dec-20	YTD Change	
			absolute	%
Loans to corporate customers	**13 714**	**13 873**	**- 159**	**-1.1%**
Loans to Individuals	**11 218**	**11 344**	**- 125**	**-1.1%**
Residential Mortgage	9 812	10 010	- 198	-2.0%
Other Loans	1 406	1 333	73	5.5%
Customer Loans (gross)	**24 932**	**25 217**	**- 284**	**-1.1%**
Provisions	1 248	1 600	- 352	-22.0%
Customer Loans (net)	**23 685**	**23 617**	**68**	**0.3%**

Loans to customers (gross) totalled €24,932mn with the YoY evolution (-1.1%) impacted by the continuing reduction of NPL stock. During 2021, novobanco sold portfolios of non-performing loans and related assets with a gross book value of €373.3mn.

The risk indicators of 2021, and comparison with previous year, are presented below:

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ASSET QUALITY AND COVERAGE RATIOS	31-Dec-21	31-Dec-20	YTD Change absolute	YTD Change %
Overdue Loans > 90 days	290	610	-320	-52.5%
Non-Performing Loans (NPL)[1]	1 749	2 498	-749	-30.0%
Overdue Loans > 90 days / Customer Loans (gross)	1.2%	2.4%	-1.3	p.p.
Non-Performing Loans (NPL)[1] / Customer Loans (gross) + Deposits with Banks and advances to Banks (gross)	**5.7%**	**8.9%**	**-3.2**	**p.p.**
Credit Provisions / Customer Loans	5.0%	6.3%	-1.3	p.p.
Coverage of Overdue Loans > 90 days	430.2%	262.2%	168.1	p.p.
Coverage of Non-Performing Loans[1]	**71.4%**	**74.1%**	**-2.6**	**p.p.**

1. Includes Deposits and Loans and advances to Banks and Customer Loans

The reduction in loans overdue by more than 90 days and non-performing loans (including deposits with Banks and loans and advances to Banks), led to an improvement in the respective asset quality ratios to 1.2% and 5.7%, respectively (Dec/20: 2.4% and 8.9%).

As at 31 December 2021, the provision coverage of NPL by impairments (including deposits with Banks and loans and advances to Banks) was 71.4%.

SECURITIES

The securities portfolio, which is the main source of assets eligible for funding operations with the European Central Bank (ECB), amounted to around €10.5bn on 31 December 2021, representing 23.5% of assets.

net of impairment mn€

SECURITIES PORTFOLIO	31-Dec-21	31-Dec-20	YTD Change absolute	YTD Change %
Portuguese sovereign debt	3 056	3 468	- 412	-11.9%
Other sovereign debt	3 197	3 710	- 512	-13.8%
Bonds	3 413	3 323	89	2.7%
Other	805	866	- 61	-7.0%
Total	**10 471**	**11 367**	**- 896**	**-7.9%**

FUNDING

Total customer funds amounted to €33.8bn at the end of 2021, showing an increase of 6.6% YTD, being noteworthy the increase on deposits (+4.7% YTD), which represent 80.9% of total customer funds.

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TOTAL FUNDS	31-Dec-21	31-Dec-20	YTD Change absolute	YTD Change %
Deposits	27 315	26 093	1 222	4.7%
Other Customer Funds (1)	267	229	38	16.5%
Debt Securities (2)	1 054	558	496	88.9%
Subordinated Debt	415	415	0	0.0%
Sub -Total	**29 052**	**27 296**	**1 756**	**6.4%**
Off-Balance Sheet Funds	4 711	4 376	335	7.6%
Total Funds	**33 762**	**31 672**	**2 091**	**6.6%**

(1) Includes checks and pending payment instructions, Repos and other funds.
(2) Includes funds associated to consolidated securitisation operations.

3.4 BUSINESS SEGMENTS

3.4.1 Corporate

In 2021 novobanco maintained its long-standing close involvement with the Portuguese business sector, providing financial support and helping companies to adjust their strategies to the new reality. To serve its corporate clients, as at December 2021 novobanco had two hubs for Large Companies (in Lisbon and Oporto) and 20 Business Centres throughout the country, with teams dedicated to the medium-sized segment.

This strong presence in the Portuguese business community has resulted in Bank market shares of 14.5% in loans and 13.1% in deposits in Corporates and SMEs.

In 2021, novobanco continued to support its corporate customer base, through three key pillars:

- financial support to small and medium-sized companies, with loans to the medium-sized companies posting a significant increase of 4.6%;
- management of requests for moratoria and adjustment of repayment schedules to the clients' financial capacity;
- continued focus on the digital transformation, developing remote relationship and signature tools to address the social distancing requirements, and launching a new version of the internet banking service with relevant improvements in terms of functionality and user experience.

A major feature of 2021 was the launch of the new investment support programmes, including the RRP and Portugal 2030, which aim to support the development of the economy by fostering innovation, digital transformation, and clean / renewable energy transition. In this context, a multidisciplinary team was created being focused on the following main areas: i) provision of permanently updated information on the existing programmes, facilitating clients' access to the available support; ii) partnership with consultants specialising in the preparation of applications to investment programmes; iii) information and clarification addressed to clients, associations and other relevant entities; iv) launch of a specific offer of financial products to cover investment needs under these programmes (e.g.: advances on funds, financing of equity and working capital and issuance of guarantees).

In Trade Finance, novobanco provides a wide range of products and specialised advice in support of international trade. The Bank's know-how in this segment is recognised by its clients, resulting in a market share of around 20.2% (+0.9pp YoY), as well as the market, as seen by the award for best Trade Finance Bank in Portugal by the Global Finance international magazine.

On the digital transformation front, the highlight was the launch of the new version of novobanco online for companies. The service has been rethought from the standpoint of user experience, featuring new menus, a new homepage with improved functionality and widgets for quick action and information, easier access to documentation made available by the Bank to the Client, and new help solutions. The new concept was developed incorporating feedback from clients and the commercial and technical teams, the key purpose being to solve the main difficulties experienced on a daily basis, thus allowing a substantial increase in users' levels of satisfaction and involvement, raising the penetration rate to around 78%. Within novobanco online Empresas, it is worth to highlight the financial aggregator, a digital financial management solution, supported by a strong analytical and predictive component, which aims to improve the operational efficiency of companies.

With regard to the assessment made by the corporate clients, the NPS (Net Promoter Score) rose to 32.7, an increase of 4.5 pp compared to the previous year. The main reason for promoters to recommend novobanco is related to the Quality of Service. Hence, the weight of Very Satisfied Customers with the Customer Service reached 89.9%, which represents a YoY increase of 1.2%.

3.4.2 Retail

novobanco's positioning relies on building long-term relationships with its clients, as reflected in the continuous optimisation of the commercial network in order to meet clients' expectations and needs. Considering the ongoing behavioural changes in all age brackets, largely induced by consumption habits created by other industries, it has become essential to be seamlessly available to the clients through their preferred channels, and to be aware of the journey made by each client to adopt the Bank's solutions - a concept known as Omnicanality.

The omnichannel approach maintains the key support of the branch network. novobanco continues to revamp the branch network, redesigning the face-to-face service experience, with greater focus on customised service and space for relaxed and meaningful engagement with the clients. This experience has required a total redesign of the branches' layout and architecture, creating a transparent ecosystem – main branches have areas for social use in line with trends. There are currently more than 100 branches with the new format (69 of which were redesigned in 2021), and the process for rest is underway.

Within the scope of omnicanality, and besides the physical branch network, novobanco has 65 Virtual Teller Machines (VTMs) featuring advanced physical currency management solutions (for cash withdrawal and deposit), which are a key basis for the development of new virtual value-added services, such as product simulation or access to specialists.

The universe of clients subscribing to the 360º Link service also continues to expand. 360º Link is a remote manager service with monitoring capabilities for high-value clients who prefer remote contact.

The digital channel is central to the customer experience, and novobanco invests much in its digital tools, particularly in journey management tools (physical and digital), following the widespread trend of online search and telephone or in-branch execution. The following main implementations/innovations stand out in 2021:

- Account opening remote solutions, using the Digital Mobile Key or by Video Call, offering a complete, fast, smart, more efficient, and entirely digital onboarding experience. This has permitted a reduction of 50% to 100% in front-office time and of more than 100kg in paper sheets consumption;
- The new app for individual clients with a fully renewed design and customer experience, adaptable and customisable, inclusive and predictive (data-science-based), and offering a wide range of services and solutions (e.g., aggregation of accounts with other banks, underwriting of investment funds, life insurance, and validation of transactions by push notifications) to improve user experience and security;
- Homebuying: Reinvention of the home buying experience, from simulation to title deed, providing a comprehensive omnichannel experience. In 2021, 50% of title deeds were mobile sourced, and 50% of online-sourced title deeds correspond to new clients. This allowed for a 40% reduction in the average time per deed and the elimination of paper documents equivalent to 8,000 sheets;
- Phygital: implementation of mobility and information sharing solutions (in person and remote), cementing the Bank's relationship of transparency and proximity with the clients and its omnichannel strategy, speeding up and simplifying processes through different types of digital signatures, and fostering a paperless culture based on more secure and efficient practices. More than 85% of the eligible transactions are carried out through the new solutions, which permits to save more than 13 tonnes of paper.

Reflecting the strategy implemented by novobanco, in 2021 customer acquisition in the Retail segment increased by 7% YoY, with approximately 30% of the new clients being under 25 years (which compares with a 10% stock of clients in this age group) - a relevant trend of rejuvenation of the Bank's customer base. In this context, the Cross-Segment Programme, which gives employees of companies with which the Bank has relationships access to more favourable conditions in several of the Bank's products and services, accounted for 22% of all individual clients onboarded in 2021.

In terms of customer loans, the main highlight was the origination of €905mn in mortgage loans, with growth more pronounced in the last four months of the year. This growth was underpinned by novobanco's partnerships strategy, with credit intermediaries increasing by 30% and standing as the Bank's largest loan origination channel.

Consumer Lending (gross stock; consumer lending & other) increased by 5.3% vs 2020. Production through the Digital Channels (4-fold YoY increase) deserves a note, as well as production in the Non-Financial Offer, with continued launches of new products and joint promotion with partners of various events for employees and clients, which yielded an 18% increase vs. 2020.

With regard to the investment offer, novobanco, based on a proprietary model, selects and sells the Mutual Funds of independent management companies that best reflect and capture market trends. In 2021, thematic funds were included in the offer, which, together with the structured funds, permit to invest in these market trends, and in particular in Technology, Health and Climate Action. The digital solution available improved the customer experience when subscribing Investment Funds, leading to an increase of 231% in digital sales vs 2020.

To support Clients in their investment decisions, novobanco offers an Investment Advisory Service. According to the client's investor profile and initial portfolio, the advisory service submits the most suitable investment proposals based, among others, on a strategic analysis of different asset classes and sectors, the macroeconomic environment and the definition of the asset allocation.

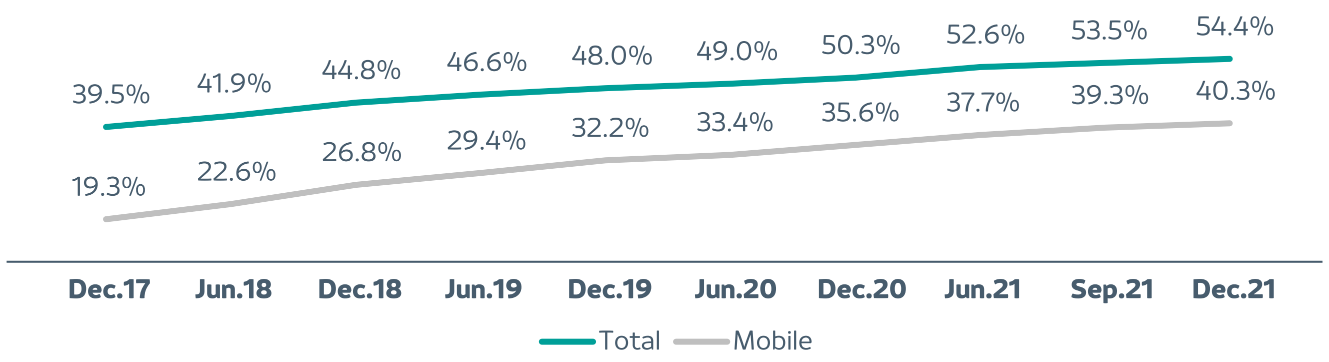
The Small Businesses segment (loan portfolio) grew by 7.8% YoY in 2021, based on its ability to closely monitor its clients and recurrently assess the pandemic impact on individuals, as well as whether the clients are prepared for the end of the loan moratoria. Customer funds in this segment grew by 15.2%, denoting a propensity to save in a period of uncertainty.

In both the Corporate and the Retail segments, the purpose of digital transformation involves i) accelerating front-to-back digitisation, improving experience and efficiency by addressing the customer journeys and transforming the operating model, and ii) transforming the digital channels to ensure a fully omnichannel experience and greater customisation, leveraging best-in-class data science.

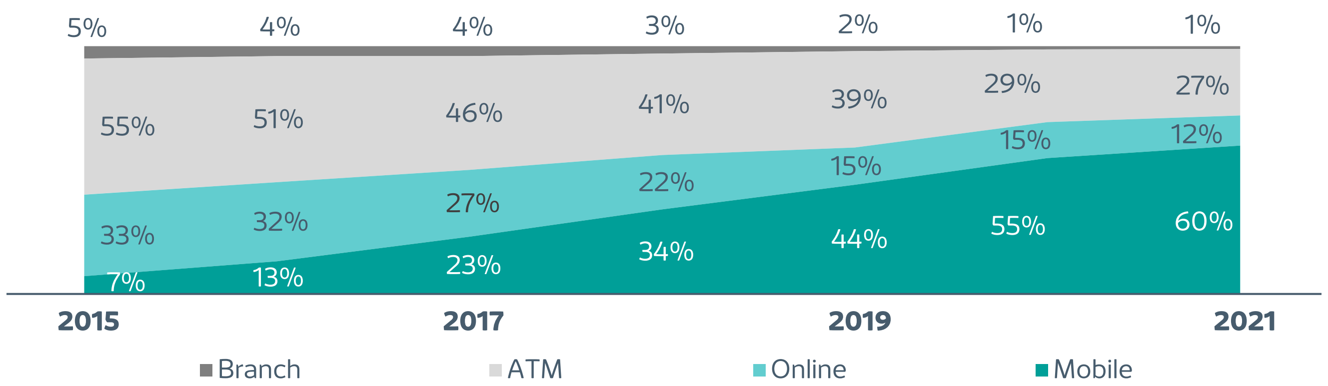
This strategy drove an increase in the number of active digital clients, to 54.4% of the total in December 2021 (the number of digital clients increased by 7% YoY) as well as a 12% annual rise in the number of active mobile clients (40% of clients are mobile). In turn, this underpinned an annual increase of >165% in the number of product units sold through the digital channels (excluding deposits, which are already traditionally high).

In 2021, 72% of novobanco contacts with individual clients were made through the digital channels (+3 pp vs. 2020). Reflecting a reinforced focus on a "mobile digital first" strategy, mobile continues to be the main means of contact of individual clients, with interactions (as measured by the number of logins) growing by 20% vs. 2020.

ACTIVE DIGITAL CLIENTS PENETRATION RATE

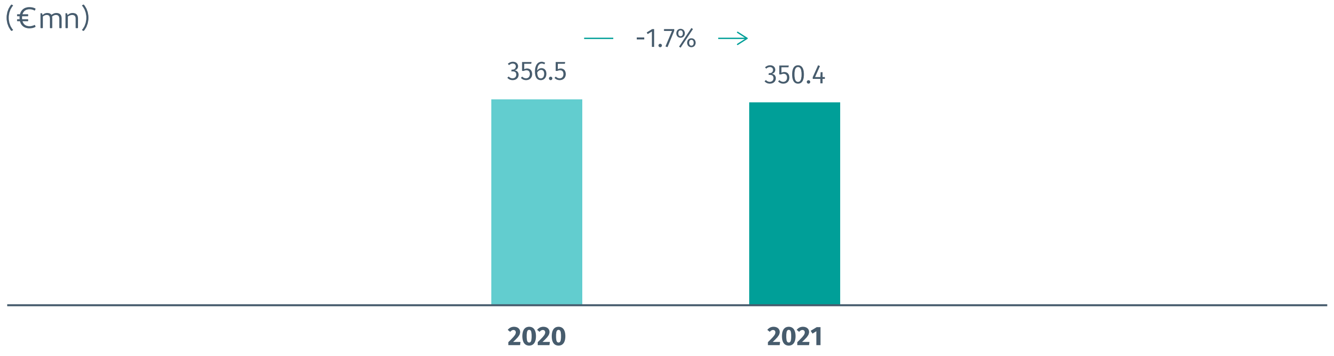


CUSTOMER TOUCHPOINTS



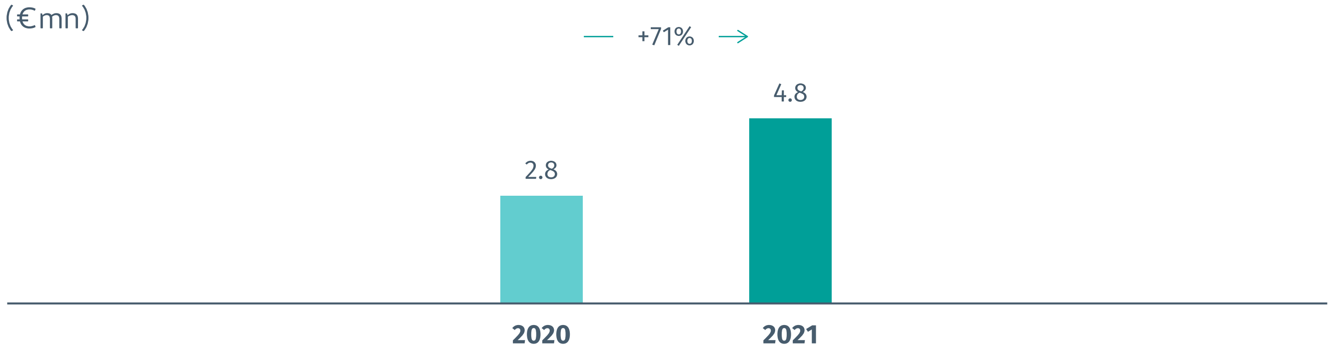
CUSTOMER LOANS EVOLUTION

(€mn)



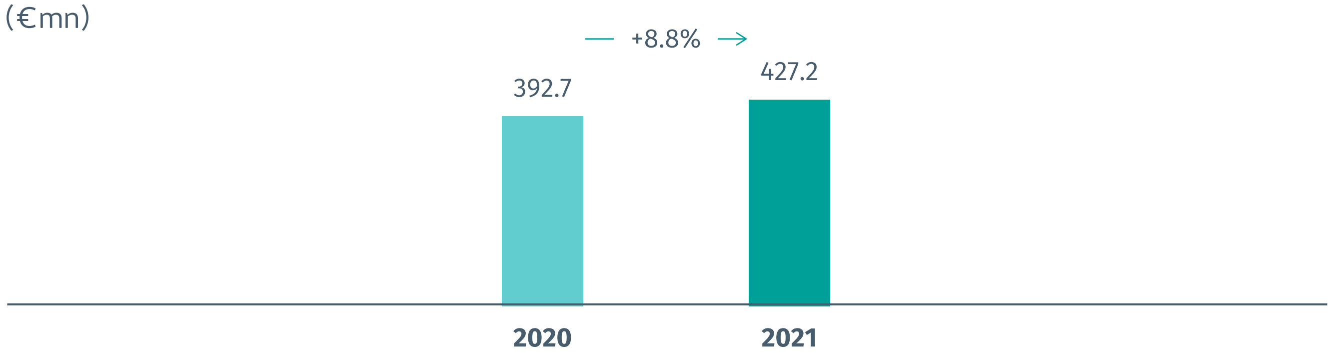
NET PROFIT EVOLUTION

(€mn)



CUSTOMER DEPOSITS EVOLUTION

(€mn)



novobanco dos Açores

The strategy of novobanco dos Açores is particularly focused on supporting the Azorean regional business fabric, namely SMEs and companies that incorporate innovation in their products, services or production systems. In 2021, novobanco dos Açores continued its wide-ranging outreach activity to its Clients, supporting the pressing and growing needs of the Azorean society, to which contributed the opening of the first of its branches designed in accordance with the new distribution model implemented at novobanco Group level. As a result of the activity developed and the proximity maintained with the market, novobanco dos Açores managed to gain more than 1,200 new clients in 2021.

novobanco dos Açores, posted a net profit of €4.8mn, a YoY increase of 71.4%. This increase, which occurred despite the reduction in net interest income, is mainly due to the lower level of impairments and provisions, mainly for non-financial assets (real estate), and to the reduction in operating costs.

In 2021 novobanco dos Açores's assets increased by €42.1mn (+7.2%), to €627mn, notwithstanding the annual reduction in net customer loans (-1.7%; -€6.1mn), to €350.4mn. In December 2021, customer loans totalled €7.3mn, which corresponds to an overdue loans ratio of 2.0% only.

As to customer funds, in December 2021 the total amount of customer deposits was €427.2mn, which represents an increase of 8.8% compared to December 2020.

Banco Best - Banco Electrónico de Serviço Total, S.A.

In 2021, Banco Best reached an all-time high in terms of assets under management, which, at €2.7bn, rose by €529mn compared with 2020 (+24%). The main drivers of this result were growth in the Asset Management segment (+ €421mn; +33%) and in Trading (+ €62mn; +25%). Customer loans increased by 20% in the year.

New clients acquisition performed very well, with a 41% increase. The clients favoured the digital media, with 40% of accounts opened by videoconference or digital mobile key.

Banco Best closed 2021 with a net profit of €3.3mn, which represents a YoY increase of 83%. This performance benefited from the increase in fee and commission income (€3.2mn; +22%), underpinned by the excellent performance of the main Asset Management and Trading commercial indicators, as well as by operating costs control (-3.3% vs 2020).

2021 HIGHLIGHTS

Digital Channels

The channels (App and Website) had a crucial boost from the modernisation of the image, the integration of new products, services and functionalities, and the transformation of processes, with significant impacts on UX/UI,
including the following:

- **All investment solutions and products** (e.g., ETFs, Equities) as well as other tools and functionalities (e.g., dashboard, Smart search) made available on the App;
- **Account opening on the App, Website and internal channels;** process redesign, passport identification and automatic PEP validation;
- **Website redesign** – including the clients' transactional website

Offer & Innovation

Consolidation of leadership in the management of a digital open platform of investment and trading, with the introduction of new partnerships and solutions:

- Alternative investment offer - Investment in Collaborative Finance through a partnership with RAIZE;
- New insurance partnership, providing access to an extensive offer of Protection Insurance through the MDS platform;
- New investment partners: Sixty Degrees, Natixis, Bluebay and Nomura;

Rankia 2021 Awards: Best Funds Platform for the second consecutive year and Best ETF Broker.

Processes & Structural

The investment in activity support generated additional value for the client, and improved the efficiency of processes and the management of operational risk:

- App - Certification of equipment for security alerts, device management and cards – Best Guardian;
- Strengthening of the active-active systems infrastructure through the introduction of a smart arbitration mechanism;
- Digital transformation of the Account opening process;
- PSD2 - review of flows and API on the website and App.

GNB Gestão de Ativos

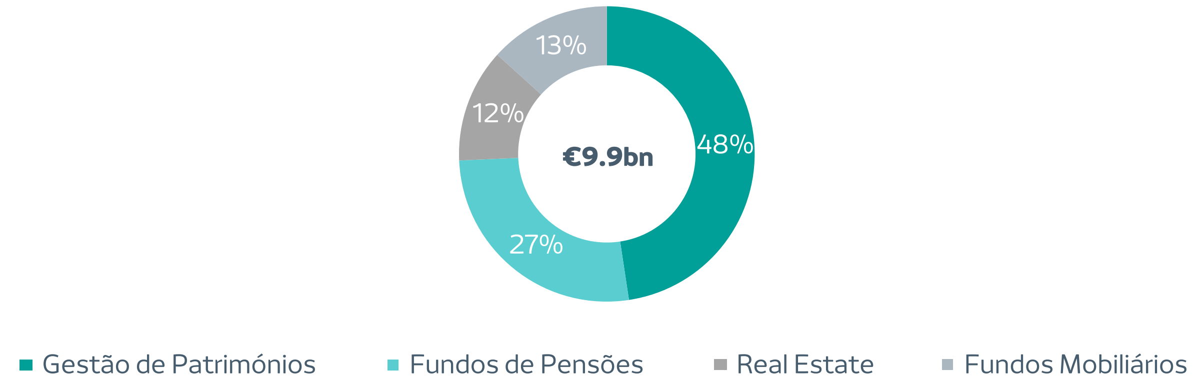
GNB Gestão de Ativos maintained its management focus on the offer of products and services that create financial value for its clients. The quality of management and consistency of performance were recognised with 10 awards during the year, both domestic and international, including Morningstar Fund Awards Portugal 2021, Refinitiv Lipper Awards and the Best Funds Awards - Jornal de Negócios/ APFIPP with the NB Obrigações Europa, NB Euro Bond, NB PPR and FP PPR Vintage funds earning awards for their performance in 2020. GNB Gestão de Ativos also earned the award for Best Bond Fund Manager (Portugal) 2021 from CFI.co – Capital Finance International.

In 2021 income from asset management activities increased by 26%, to €10.3mn, driven by positive impacts from both the side of revenues - with net fees and commissions growing by more than 4% -, and from the side of costs, which fell by around 8%. In 2021 the cost-to-income was 46%, a sharp reduction from 54% in 2020.

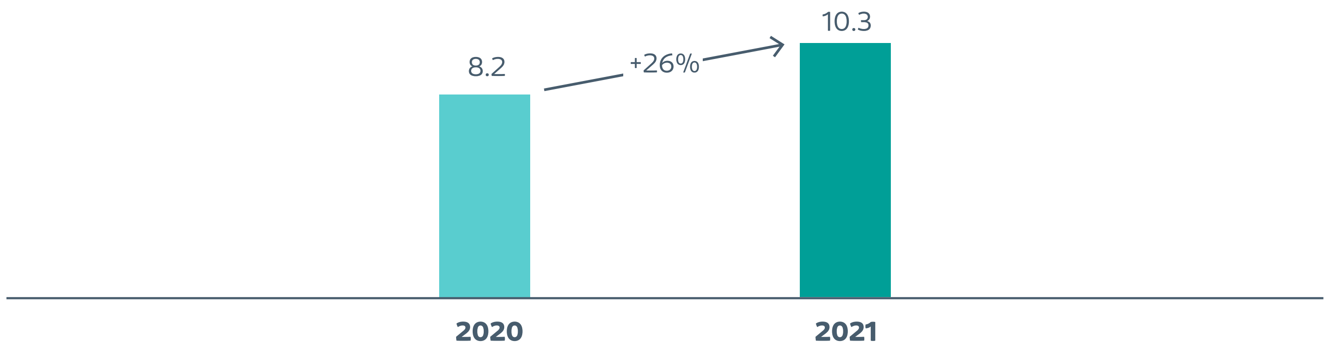
Highlights in 2021:

- Assets under management of all mutual funds domiciled in Portugal and Luxembourg increase by 16%, to €1.3 billion. With the aim of increasing the focus on the most suitable products for its clients, while maintaining considerable diversification of products and services, in 2021 the offering was restructured and two funds on the Luxembourg platform were liquidated.
- GNB Real Estate's management remained faithful to its mission of creating financial value, pursuing its main objective of reducing exposure to non-strategic real estate and reorganising the portfolio of real estate funds under its management. At 31 December 2021 the volume under management of real estate investment funds totalled approximately €1 083mn (+1.54% vs 2020). GNB Real Estate closed 2021 with a market share of 9.9% (vs 9.8% in 2020).
- In the Pension Funds segment, assets under management grew by 7%, to €2.63bn, with four more corporate pension plans, two of which closed-end, contributing to this growth.

ASSETS UNDER MANAGEMENT
(December 2021)



NET PROFIT EVOLUTION
(€mn)



3.5 NOVO BANCO SEPARATE

Results

novobanco reported a net profit of €225.9mn in 2021, which compares with a net loss of €1 374.2mn in 2020.

Commercial banking income reached €832.0mn (+2.4% YoY), driven by the increase in net interest income (+2.3%) and in fees and commissions (+2.8%).

Capital market results were positive, at €78.0 million, which compares with -€224.2mn in 2020 (negative impact of €300.2mn in Dec-20 from the independent valuation of novobanco's restructuring funds).

Operating costs totalled €380.8mn, a YoY reduction of 5.4% that reflects the improvements achieved in recent years in terms of simplifying processes and optimising costs and structures.

Net operating income was positive, at €505.7mn. Impairments and provisions registered a notable reduction of 77.4% relative to the previous year, to €270.4mn.

mn€

INCOME STATEMENT	31/Dec/21	31/Dec/20	% Change
Net Interest Income	581.1	568.0	2.3%
Fees and Commissions	251.0	244.2	2.8%
Commercial Banking Income	**832.0**	**812.2**	**2.4%**
Capital Markets Results	78.0	-224.2	...
Other Operating Results	-23.6	-35.9	34.3%
Banking Income	**886.4**	**552.1**	**60.6%**
Operating Costs	380.8	402.7	-5.4%
Net Operating Income	505.7	149.4	...
Restructuring funds-independent valuation	0.0	-300.2	100.0%
Net Impairments and Provisions	270.4	1 195.5	-77.4%
Credit	147.1	520.5	-71.7%
Securities	47.3	40.9	15.8%
Other Assets and Contingencies	76.0	634.1	-88.0%
Income before Taxes	**235.3**	**-1 346.3**	**...**
Taxes	-24.0	-4.2	...
Special Tax on Banks	33.4	32.2	3.8%
Net Income for the year	**225.9**	**-1 374.2**	**...**

Activity

novobanco's activity in 2021 was developed under the same guidelines already referred for novobanco Group.

mn€

ACTIVITY EVOLUTION	31/Dec/21	31/Dec/20	Change absolute	Change %
Assets	**44 341**	**44 042**	**299**	**0.7%**
Customer Loans (gross)	**23 165**	**23 332**	**- 167**	**-0.7%**
Loans to Individuals	9 599	9 609	- 10	-0.1%
Residential Mortgage	8 334	8 395	- 61	-0.7%
Other Loans	1 265	1 214	51	4.2%
Loans to corporate customers	13 566	13 723	- 157	-1.1%
On Balance Sheet Funds	**28 432**	**26 709**	**1 723**	**6.5%**
Deposits	26 739	25 557	1 182	4.6%
Other Customer Funds (1)	259	222	37	16.7%
Debt Securities	1 019	515	504	97.8%
Subordinated Debt	415	415	0	0.0%

(1) Includes checks and pending payment instructions, Repos and other funds.

At 31 December 2021, deposits totalled €26.7bn, an increase of €1.2mn compared to December 2020 (€25.6bn).

Gross customer loans totalled €23,165 million (-0.7% vs. Dec-2020), such decrease being influenced by the strategy of reducing non-performing loans (NPL). In 2021, sales of non-performing loan portfolios and related assets amounted to €367.1mn (gross).

The quality of the loan portfolio at the end of the period shows a cross-cutting improvement in novobanco's asset quality. The overdue loans > 90 days / gross loans ratio improved to 1.2% (from 2.6% in Dec-20), with the NPL coverage ratio rising to 72.3% (64.9% in Dec-20).

mn€

ASSET QUALITY	31/Dec/21	31/Dec/20	Change absolute	Change %
DATA BASIS (Euro millions)				
Customer Loans (gross)	23 165	23 332	- 167	-0.7%
Overdue Loans	301	616	- 315	-51.1%
Overdue Loans > 90 days	283	603	- 320	-53.1%
Forborne Loans	1 537	2 054	- 516	-25.1%
*Non-Performing Loans (NPL)**	1 708	2 445	- 736	-30.1%
Customer Loans Impairment	1 236	1 587	- 351	-22.1%
ASSET QUALITY AND COVERAGE RATIOS (%)				
Overdue Loans / Gross Loans to Customers	1.3%	2.6%	-1.3	p.p.
Overdue Loans > 90 days / Gross Loans to Customers	1.2%	2.6%	-1.4	p.p.
Forborne Loans / Gross Loans to Customers	6.6%	8.8%	-2.2	p.p.
Non-Performing Loans (NPL) / Gross Loans to Customers + Gross Loans to Credit Institutions*	5.9%	9.3%	-3.4	p.p.
Impairment / Total Loans to Customers	5.3%	6.8%	-1.5	p.p.
Impairment / Overdue Loans	409.9%	257.5%	152.4	p.p.
Impairment / Overdue Loans > 90 days	437.3%	263.3%	174.1	p.p.
Impairment / Non-Performing Loans*	72.3%	64.9%	7.4	p.p.

* includes Credit Institutions

3.6 RELEVANT FACTS FROM THE ACTIVITY AND SUBSEQUENT EVENTS

Relevant Facts of 2021 are mentioned in point 1.1.3 Main Events of the Management Report.

SUBSEQUENT EVENTS

Following the sale agreement between the Resolution Fund and the shareholder Lone Star, on February 24, 2022, the Resolution Fund transferred the ownership of shares to Nani Holdings as a result of the capital increase through conversion of conversion rights. The participation of Nani Holdings in novobanco remains at 75%, with the participation of the Resolution Fund being diluted to 23.44%.

3.7 MAIN RISKS AND UNCERTAINTIES

2022 will continue to be marked by consequences of the Covid-19 pandemic which, despite the progress being made in terms of vaccination, which should start yielding results as the year advances, continues to exert acute pressure on the economy due to the imposition of successive restrictions, with potential impacts in terms of Credit and Liquidity Risk.

The main risks and uncertainties for novobanco are the following:

1. Credit Risk relating to the adverse consequences of the Covid 19 pandemic
The impact of Covid-19 on global markets has been wide-ranging, with increasing short-term volatility and a contraction in activity in the main economies worldwide. The pandemic has led various countries, including Portugal, to declare a state of emergency and to adopt different restrictive measures (including constitutional exception measures), such as the imposition of travel restrictions, the establishment of quarantines and the temporary shutdown of various institutions and businesses. Although the full implications of the Covid-19 outbreak cannot be entirely determined yet, the pandemic has had a material adverse impact on the Portuguese economy and on the Portuguese market. The risk of a new wave it's not completely out of expectations until pandemic comes to an end.

2. The bank still have a significant credit risk
novobanco is exposed to credit risk, meaning, by definition, the risk that the Group's borrowers and other counterparties are unable to fulfil their payment obligations and that the collateral securing payments of these obligations is insufficient. Adverse changes in the credit quality of the Group's borrowers and counterparties, a general deterioration in Portuguese or global economic conditions or increased systemic risks in financial systems could affect the recovery and value of the Group's assets and require an increase in provisions for bad and doubtful debts and other credit losses. As of 31 December 2021 the ratio of overdue loans greater than 90 days to gross loans was 1.1% with a coverage ratio of 438.8% and the ratio of non-performing loans was 5.2%, compared to 8.9%. as at 31 December 2020, with a coverage ratio of 72.0% (74.1% as at 31 December 2020).

3. Exposure to Real Estate
The Group is exposed to fluctuations in the value of Portuguese real estate, both directly through assets related to its operations or obtained in lieu of payment, or indirectly, through real estate that secures loans or by financing real estate projects. As of December 2021, the Group's real estate exposure totalled €0.8 billion, which represented 1.8% of total assets (vs 2.0% in December 2020). Assets registered as investment properties amounted to €0.6 billion at 31 December 2021 (vs €0.6 billion in 31 December 2020), and the real estate assets registered as other assets amounted to €0.2 billion as at 31 December 2021 (including €170 million net repossessed real estate).

4. Changes in interest rates may adversely affect the bank's net interest margin and results of operations
novobanco is subject to interest rate risk. As is the case with other banks in Portugal, the Group is particularly exposed to differentials between the interest rates payable by it on deposits and the interest rates that it is able to charge on loans to customers and other banks. This exposure is increased by the fact that, in the Portuguese market, loans typically have floating interest rates, whereas the interest rates applicable to deposits are usually fixed for periods that may vary between three months and three years. As a result, Portuguese banks, including novobanco, frequently experience difficulties in adjusting the interest rates that they pay for deposits in line with market interest rate changes. This trend is reinforced by the current historically low interest rates that put pressure on the bank's interest margin, which is crucial for its profitability.

5. Concentration risk in credit exposures
The bank is subject to a concentration of credit risk in particular industries, countries, counterparties, borrowers, issuers and customers. novobanco's loans and advances to customers, which comprised a net amount of 53% of the Group's assets as at 30 December 2021 (53% as at 31 December 2020), had significant exposure with respect to the services sector and real estate activities, which represented

12.2% and 6.7%, respectively, of its loans and advances to customers as at 31 December 2021 (11.9% and 7.0%, respectively, as at 31 December 2020). Macroeconomic downturn or deterioration in real estate values, adverse business conditions, market disruptions or greater volatility in those industries as a result of lower prices in such industries or other factors could result in significant credit losses for the Group. Additionally, the Group is exposed to risks arising from the high concentration of individual exposures in its loan portfolio, with the 10 largest loan exposures of the Group as at 31 December 2020 representing 10.1% of the total loan portfolio (gross) (10.2% as at 31 December 2020).

6. The bank's business is subject to operational and cybercrime risks

The bank is subject to certain operational risks, including interruption of service, errors, fraud by third parties (including large-scale organised fraud, as a result of the Group's financial operations), fraud by the bank's own employees, breach or delays in the provision of services, breach of confidentiality obligations with regards to customer information and compliance with risk management requirements. Despite the mechanisms in place today, novobanco may be unable to successfully monitor or prevent all or part of these risks in the future. Any failure to successfully execute the bank's operational risk management and control policies could result in reputational damage and/or have a material adverse effect on the Group's financial condition and results of operations.

7. The bank's activity is subject to reputational risks

The bank is exposed to reputational risks understood as the probability of negative impacts resulting from an unfavourable perception of its public image, whether proven or not, among customers, suppliers, shareholders, analysts, employees, investors, media and any other bodies with which the bank may be related, or even public opinion in general.

novobanco is subject to continuous political and public scrutiny (including, but not limited to) in relation to its incorporation and the Lone Star sale, in particular the existence of the CCA and its funcioning, which have led to a number of political initiatives such audits from the Court of Auditors (Tribunal de Contas) at the request of the Portuguese Parliament, and the creation of a Parliament Inquiry (Comissão Eventual de Inquérito Parlamentar às perdas registadas pelo novobanco e imputadas ao Fundo de Resolução). In addition, as a result of the rules introduced by Law No. 15/2019 of 12 February, on transparency of information concerning granting of credits of significant value, some independent audits have and may continue to be performed in the future.

8. Military operation on the territory of Ukraine

On 24 February 2022, the Russian Federation began a military operation on Ukrainian territory, triggering a war that currently involves three countries (Russia, Ukraine and Belarus). In response, a group of countries, including the NATO and European Union countries, and others, approved several sanctions with the aim of impacting Russia's economy, and also the economy of Belarus. There is the possibility that novobanco will be impacted by losses on assets exposed to those countries as a result of the said sanctions, as well as the destruction caused by the war in Ukraine. novobanco's exposure - Customer loans and securities - to the Russian Federation, Belarus and Ukraine as at 31 December 2021 totalled 49.3 million euros. Note 47 - Subsequent Events in novobanco Group's Consolidated Financial Statements and Notes includes additional detail, including the breakdown by asset type and country.

With the geopolitical uncertainty and the slowdown of the world's main economies, the financial markets sustained large and widespread losses, foreshadowing a severe deterioration of the global macroeconomic scenario.

This environment generates risks for all Financial Institutions, namely: i) stock of non-performing assets and their potential growth; ii) cybercrime and disruption in Information Technology (IT); iii) low interest rates; and iv) growing competition from non-banking entities.

4.0 CAPITAL, LIQUIDITY & RISK

4.1 Capital Ratios
4.2 Liquidity and Funding
4.3 Risk Management

Vânia Elias
South Retail Department - 360 Senior Client Manager

Nelson Soças
South Retail Department - Branch manager

4.1 CAPITAL RATIOS

As of 31 December 2021, the CET1 ratio was 11.1% and total capital ratio was 13.1% (preliminary values).

In this context, it is important to highlight the fact that the European Central Bank (ECB) disclosed during March 2020 several measures that allow Banks to operate temporarily below the required capital level. These measures aim to prevent Banks from suspending financing to the economy in an adverse economic environment. In addition, changes were introduced to the regulatory framework, in force since June 2020, regarding the calculation of capital ratios, aimed at mitigating the impacts of the Covid-19 pandemic. In these circumstances, novobanco adhered to the dynamic option of the transitional regime of IFRS 9.

novobanco's Common Equity Tier 1 (CET1) ratio is protected up to a predetermined threshold for the amounts of losses verified in a perimeter of assets as outlined by the Contingent Capital Agreement. The amount of compensation to be requested with reference to 2021 is €209.2mn (with this amount not included in the calculation of regulatory capital with reference to 31 December 2021), took into account the losses incurred in the assets covered by the Contingent Capital Agreement, as well as the minimum capital condition applicable at the end of the same year under the Contingent Capital Agreement.

Regarding the amount requested from the Resolution Fund for the year 2020, there are two divergences between novobanco and the Resolution Fund, i.e. (i) the provision for discontinued operations in Spain and (ii) valuation of participation units, which are subject to an arbitration decision. novobanco considers these amounts (in aggregate equal to €165mn) as due from the Resolution Fund under the Contingent Capital Agreement, and has triggered the legal and contractual mechanisms at its disposal.

Additionally, novobanco and the Resolution Fund have a divergence, subject to arbitration, concerning the application by novobanco, at the end of 2020, of the dynamic option of the transitional regime of IFRS 9.

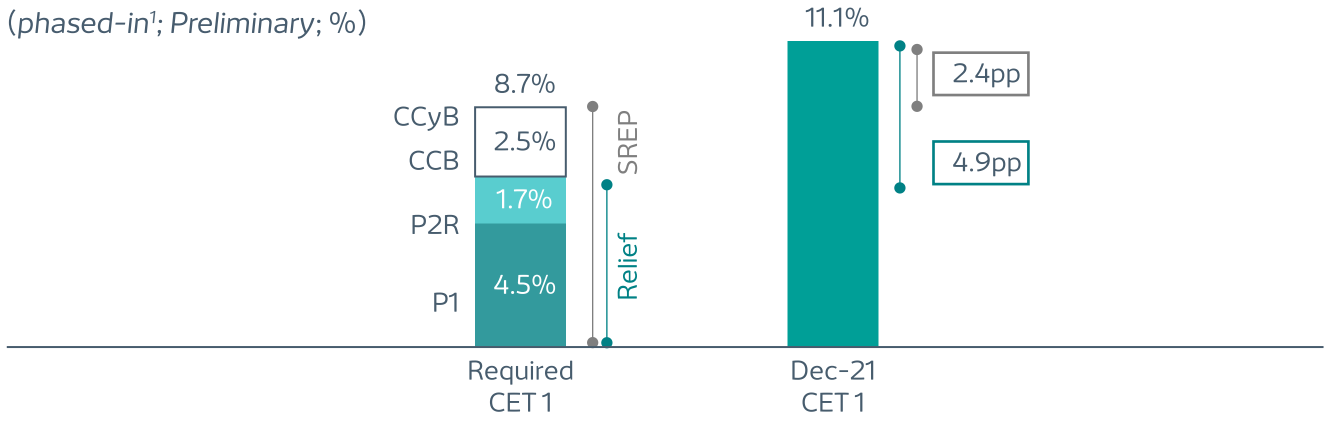
mn€

CAPITAL RATIOS (CRD IV/CRR)		31-Dec-20 (1) (Phased-in)	31-Dec-20 (1) (Fully loaded)	31-Dec-21 (2) (Phased-in)	31-Dec-21 (2) (Fully loaded)
Risk Weighted Assets		26 689	26 392	24 929	24 689
Own Funds					
Common Equity Tier 1	(B)	2 902	2 511	2 768	2 507
Tier 1	(C)	2 903	2 512	2 769	2 509
Total Own Funds	(D)	3 415	3 023	3 276	3 016
Common Equity Tier 1 Ratio		10.9%	9.5%	11.1%	10.1%
Tier 1 Ratio		10.9%	9.5%	11.1%	10.1%
Solvency Ratio		12.8%	11.5%	13.1%	12.2%
Leverage Ratio		6.2%	5.4%	6.0%	5.4%

(1) Updated values
(2) Preliminar

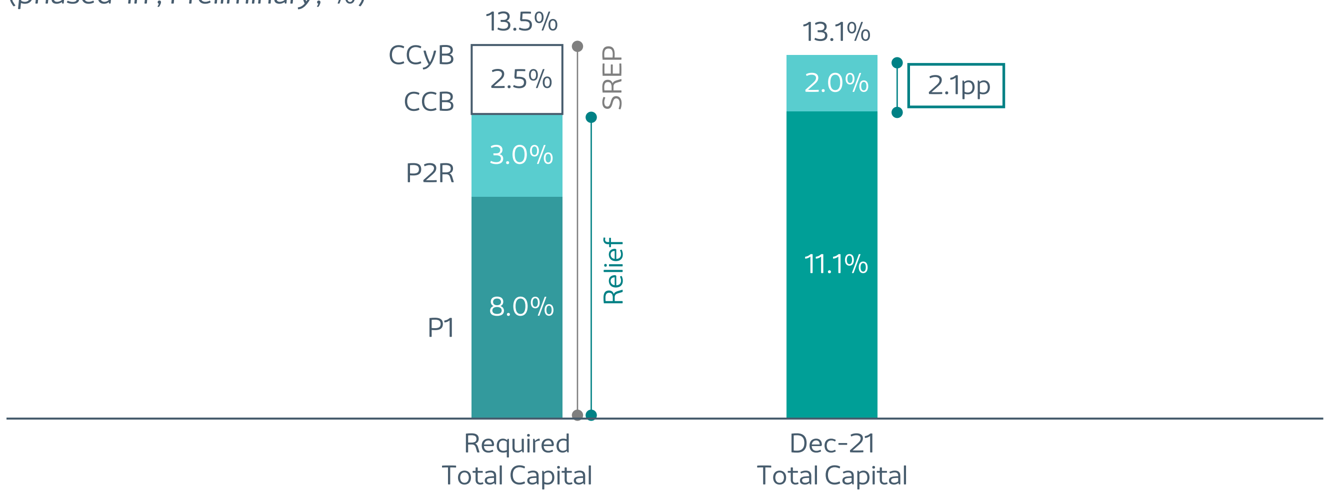
CET 1

(*phased-in*[1]; *Preliminary*; %)



TOTAL CAPITAL

(*phased-in*[1]; *Preliminary*; %)



(1) On 12-Mar-20 the European Central Bank disclosed several measures that allow Banks to operate temporarily below the required capital level; P2G not included.

4.2 LIQUIDITY AND FUNDING

HIGHLIGHTS

- Liquidity remains at comfortable levels and well above regulatory requirements.
- Stable funding structure, relying mainly in customer deposits.
- Cost optimization continues to be one of the main focus of the bank, without incurring undesirable liquidity risks.
- 2021 marked the return to the capital markets, driven by the bank's MREL requirements. Issuances in the coming years are expected to ensure compliance with the MREL ratios and improve the bank's funding profile.

LIQUIDITY MANAGEMENT

novobanco manages liquidity in accordance with all the regulatory rules and its own management principles, guaranteeing that all responsibilities are met, whether in normal market conditions or under stress conditions. These include, among others, the ECB´s legal reserves, liquidity ratios (LCR and NSFR), maintenance of adequate levels of liquid assets, definition of funding transfer pricing (FTP) framework and establishment of an offer of financial products that results in a diversified panel of funding sources.

Short-term liquidity is monitored through daily mismatch reports, prepared in accordance with pre-established guidelines and internally defined metrics, which allows the bank to make an early detection of any signals of crisis with potential impacts on the bank, namely through idiosyncratic risk, contagion risk (due to market tensions) or the risk of repercussions of an economic crisis on the bank. The report monitors the evolution of the liquidity position, including eligible assets and liquidity buffers, main cash inflows and outflows, deposits' evolution, medium- and long-term funding, central banks funding, the evolution of the treasury gap (net interbank deposits), as well as several warning indicators established for the purpose.

This process ensures an ongoing and active role in liquidity risk management and risk assessment from the EBD and also allows the bank to take immediate action whenever necessary.

In addition, the liquidity position is also daily reported to the Joint Supervisory Team.

In terms of the structural liquidity, novobanco manages its activity and funding sources in order to achieve funding stability and cost optimization, avoiding as much as possible undesirable liquidity risks. The structural liquidity of the bank is analysed in detail on the Capital and Asset Liability Committee (CALCO), which meets on a monthly basis. Among other, CALCO analyses and discusses the bank's liquidity position, performs a comprehensive analysis of the liquidity risk and its evolution, with special focus on current liquidity buffers and generation / maintenance of eligible assets for rediscount with the ECB and respective impacts on the liquidity ratios.

novobanco Group's funding policy is one of the major components of the bank's liquidity risk management, which stresses the diversification of funding sources by instruments, investors and maturities. Given the commercial nature of the balance sheet, novobanco's strategy has, since its incorporation, largely relied on boosting customer deposits as its major source of funding, as deposits were severely hit by the resolution and market access has not been normalized.

Additionally, the bank prepares a monthly liquidity report (for more details see '4.3. Risk Management), considering not only the effective maturity but also behavioural maturity of the various products, which allows to determine the structural mismatches for each time bucket. Based on this information and the bank's medium-term plan, the annual activity funding plan is prepared considering the established budget targets. This plan, which is regularly reviewed, favours, as much as possible, stable funding instruments.

The bank also has in place a contingency liquidity plan, which comprises a set of measures that, if triggered, would allow the bank to manage and/or minimize the effects of a severe liquidity crisis. These measures aim to address additional liquidity needs and boost the resilience of novobanco in a potential stress situation.

Finally, the bank also performs, on an annual basis, an Internal Liquidity Adequacy Assessment Process or ILAAP, which evaluates the liquidity position of the bank in a normal and stress scenario. The results of this process, which is approved by the EBD, must be sent to the regulatory authorities and concluded that the bank's funding and liquidity structure and Internal processes are solid and that the bank could withstand a stress scenario.

FUNDING STRUCTURE AND LIQUIDITY IN 2021

novobanco maintained a comfortable liquidity position throughout 2021, with deposits at the ECB as at 30 December 2021 having increased to €5.3bn (vs. €2.4bn in Dec.2020). During the year, liquidity management continued to involve the rationalization of funding sources and improvement of profitability.

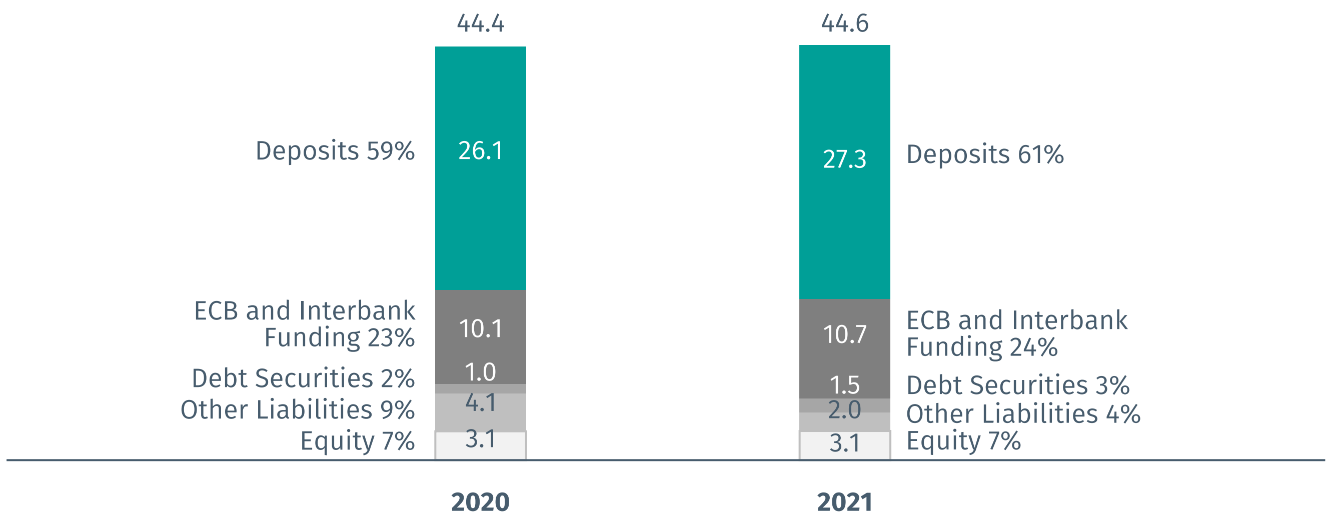
At the end of 2021 novobanco's customer deposits totalled €27.3bn (€26.1bn in 2020), having increased €1.2bn YoY, with a strong contribution from both the retail and corporate segments, despite a continuous cost reduction. The positive performance in customer deposits was particularly relevant in the retail segment, which increased €1.0bn YoY.

CUSTOMER DEPOSITS

(€bn)

FUNDING STRUCTURE

(€bn)

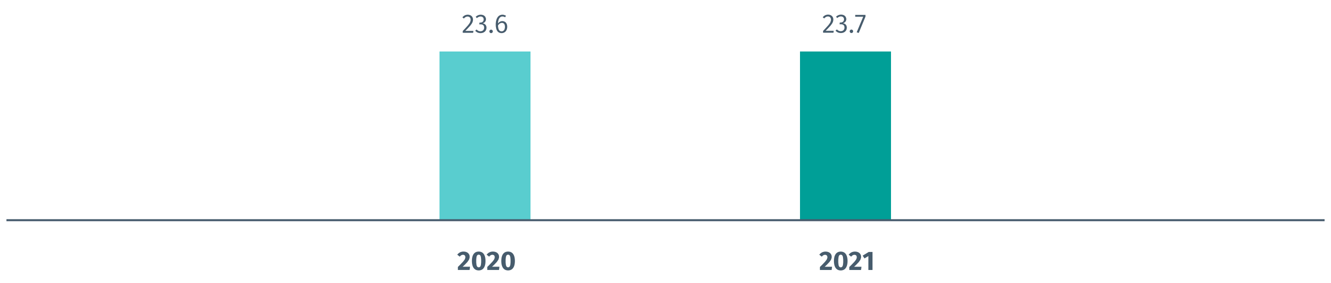


At the end of 2021, customer deposits remained the bank's main funding source, accounting for 61% of its funding structure (59% at the end of 2020), of which 72% were deposits from the retail segment.

In terms of loan portfolio, the bank's core business was stable, as at 31 December 2021 total net loans amounted to €23.7bn (vs. €23.6bn FY20). Despite the NPL's sales, novobanco managed to maintain a strong loan origination, with the corporate segment remaining at the core of its business model.

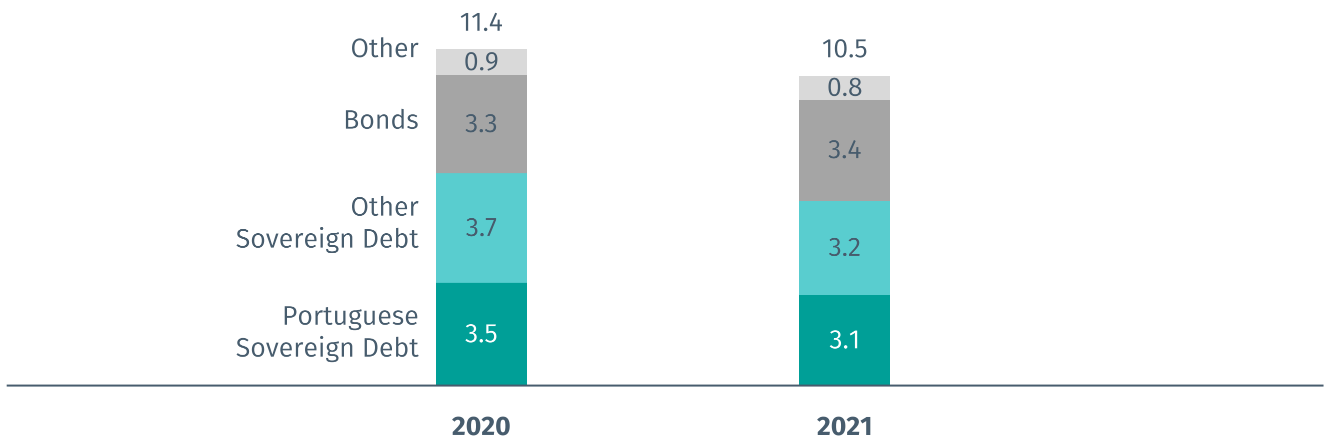
NET LOAN BOOK EVOLUTION

(€bn)



SECURITIES PORTFOLIO

(€bn)



On the other hand, the securities portfolio reduced by around €0.9bn vis-à-vis 2020, largely due to the de-risking strategy and the reimbursements of the Sovereign debt portfolio. novobanco's security portfolio remained substantially (more than 70%) composed of high-quality liquid assets ("HQLAs"), and among these more than 60% are sovereign or supranational debt securities. Throughout the year of 2021, due to the historically low level of sovereign and supra yields, the reinvestment of matured securities did not prove to be more profitable than the maintenance of this liquidity at the ECB.

In terms of medium- and long-term funding, driven by the bank's MREL requirements, in 2021 novobanco successfully concluded two senior preferred bond issues amounting in aggregate to €575mn, a milestone for the bank's return to the capital markets:

I. in July the bank issued €300mn bonds maturing in 2024, with an early redemption option in 2023. This bond issue was executed together with a liability management exercise consisting of a tender offer and consent solicitation on its long-dated bond, in which novobanco acquired approximately 32% of the outstanding amount of its zero-coupon bonds for €161mn, corresponding approximately to €88mn of book value. The replacement of these zero-coupon bonds by the new bonds will improve the funding structure, as the new bonds are fully compliant with the MREL requirements and will allow for relevant interest savings in the coming years.

II. in December novobanco returned to the markets with another senior preferred bond issue amounting €275mn and with maturity in 2023 (early redemption in September 2022).

These two market transactions allowed the bank to comply with the MREL regulatory requirement, in force since 1 January 2022.

MREL REQUIREMENTS

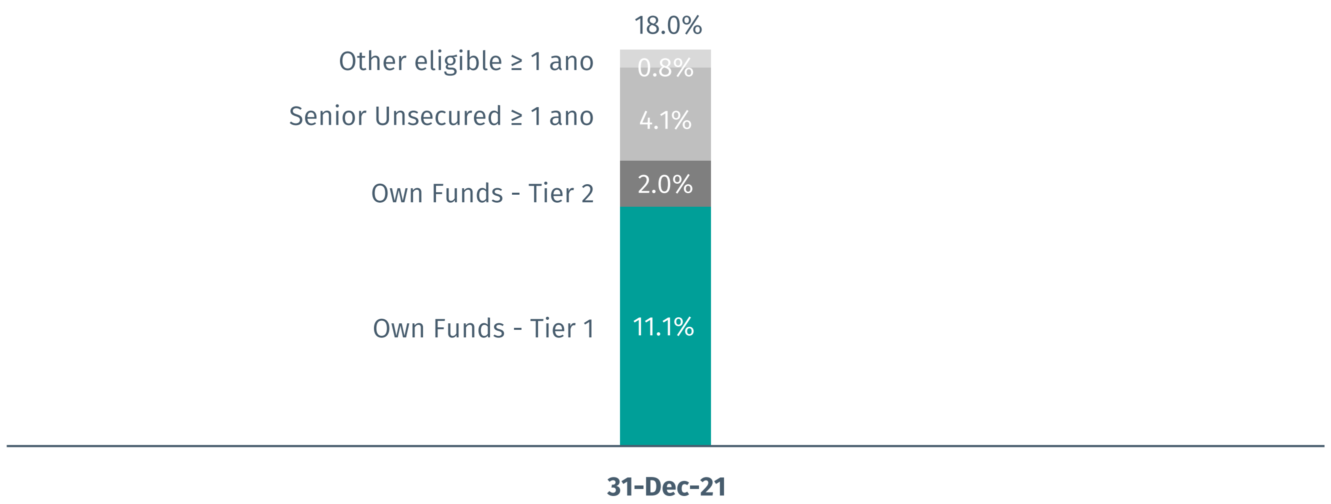
(%)

	Jan-22	Jan-26
TREA[1]	14.64%	22.78%
Combined Buffer	2.51%	n.a.[3]
Total	17.15%	22.78% + CBR
O-SII (LSF Nani)	0.50%[2]	
Total + O-SII	17.65%	22.78% + CBR
LRE[4]	5.91%	5.91%

(1) TREA - Total Risk Exposure Amount;
(2) O-SII defined as LSF Nani Investments; as communicated by Banco de Portugal on its website on 30 Nov 2021, the O-SII increased from 0.375% to 0.5%: O-SII requirement at novobanco is under analysis by the regulator;
(3) As of Jan-26 appicable combined buffer requirement;
(4) LRE - Total Leverage Exposure;

MREL RATIO

(% RWA; Preliminary)

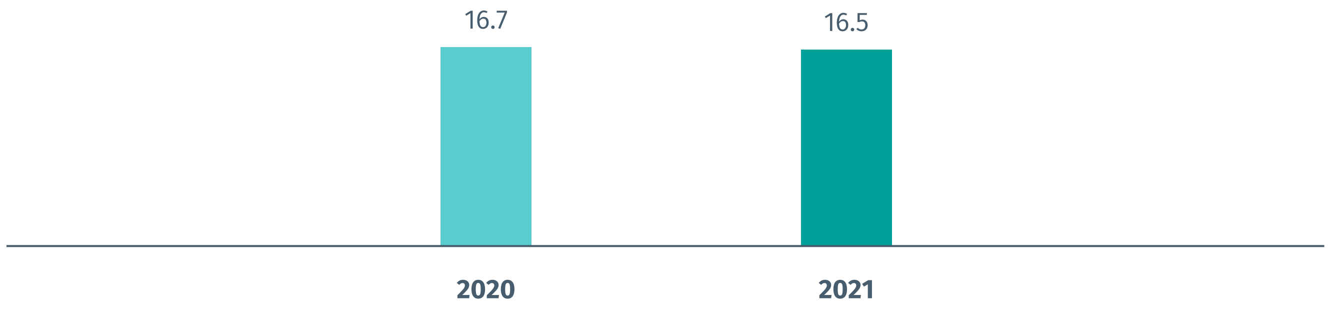


Additionally, in 2021: (i) the increase in the amount and maturity of the medium-term financing under the TLTRO III by €950mn at YE to mitigate the negative impact of the reimbursement/maturity shortening of outstanding TLTRO III amount on NSFR; and (ii) the Resolution's Fund €429mn capital injection in June and December, under the Contingent Capital Agreement, allowed a significant reinforcement of the bank's liquidity, as well as maintaining the stability of its funding structure.

In this context, novobanco maintained its liquidity buffer at very comfortable level. In December 2021, the portfolio of eligible securities for rediscount with the ECB totalled €16.5bn (net of haircuts), a slight €0.2bn reduction YoY. In addition to the abovementioned assets, novobanco has HQLA assets non-eligible with the ECB and deposits at ECB, which makes-up to a total liquidity buffer of €12.5bn composed by highly liquid assets (90%) at 31 December 2021, an increase of €1.2bn YoY.

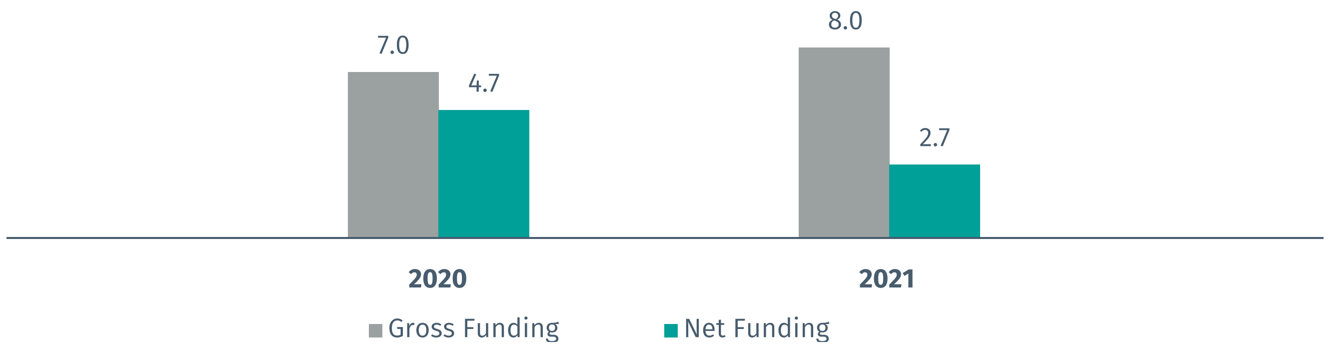
EVOLUTION OF ELIGIBLE ASSETS AT THE ECB

(€bn)



EVOLUTION OF FUNDING FROM THE ECB

(€bn)



novobanco thus maintained a comfortable liquidity position in 2021, reflected in the level of the regulatory liquidity ratios: i) Liquidity Coverage Ratio (LCR) at 182% (vs. 140% in 2020) and ii) Net Stable Funding Ratio (NSFR) 117% (vs. 112% in 2020) both above the regulatory requirements, and showing an upward trend vis-à-vis 2020.

Overall, novobanco believes it has a well-balanced funding structure, which does not present significant short-term liquidity or refinancing risks. The bank's major funding concentration is the ECB funding, €8bn on TLTRO III as of Dec 2021, which will start to mature in December 2022 (€1.6bn). Nevertheless, taking into account the substantial cash deposits held with the ECB (more than €5bn as of the end of 2021), the absence of significant wholesale redemptions and the availability of diversified sources of funding, currently also including market funding, the bank has a comfortable liquidity position and do not expect major refinancing risks.

4.3 RISK MANAGEMENT

The definition of a risk management framework with standards, patterns, objectives and responsibilities established for all areas of novobanco Group, permits to implement the strategy in compliance of the established risk appetite.

Supporting top management in effective risk management and in the development of a strong risk culture, this framework defines the following:

- the main risks faced by the novobanco Group, as well as those to which it may be exposed
- the risk appetite requirements and their monitoring;
- the responsibility functions in risk management;
- the governance structures and risk management and control committees.

THE RISK CULTURE AT NOVO BANCO GROUP

Risk in implicit in the banking business. Consequently, the novobanco Group is naturally exposed to the various classes of risk arising from external and internal factors according to the markets where the bank operates and the activities it develops.

The novobanco Group considers that Risk Management is a key pillar for sustained value creation over time.

The novobanco Group's Risk management and control is therefore grounded on the following assumptions:

- Independence from the Group's other units, and in particular risk-taking units;
- Universality, through application of the risk culture across the entire novobanco Group, through a holistic and preemptive approach to risk;
- Three lines of defence model, viewing the adequate detection, measurement, monitoring and control of all material risks to which the novobanco Group is exposed. This Model implies that all employees, in their sphere of activity, are responsible for the management and control of risks.

RISK MANAGEMENT FRAMEWORK

1	**1. GOVERNANCE** Risk management and control committees. Definition of Policies and roles and responsibilities.
2	**2. RISK APPETITE STATEMENT** Definition of the level of risk that the Group is willing to take on
3	**3. RISK CULTURE** Risk culture embedded at the various levels of the organisation making all employees accountable for risk management and control.
4	**4. RISK CATEGORIES** Shared holistic vision of the Credit, Market, Liquidity and Operational Risk classes as well as of emerging risks (e.g., ESG risk).
5	**5. RISK TOOLS** Stress testing, limits policy, model validation, quantification and evaluation methodologies.
6	**6. 3 LINES OF DEFENCE** The pillar for effective and seamless risk management at the various levels of the Group.

3 LINES OF DEFENCE PRINCIPLE	1ST LINE OF DEFENCE	2ND LINE OF DEFENCE	3ND LINE OF DEFENCE
NOVO BANCO GROUP	Business Areas	→ Global Risk Department → Compliance Department;	Internal Audit Department
FUNCTION	Maximise return	Control	→ Independent review → Ensures adequacy of policies and processes → Ensures correct implementation of policies and processes
LIMITATION	Takes risk according to Risk Appetite	Does not take risk	
MISSION	→ Accurate and timely identification of risks → Make sure that risk remains within defined limits → Measure, monitor, report		

A strong risk culture in the organisation is revealed by diligent, proactive and consistent compliance with regulations, the code of conduct, values and risk appetite defined for all activities and risk exposures. To this end, the timely identification of risk sources and risk-based mitigation and control actions are fundamental.

RISK MANAGEMENT FUNCTION

The risk management function is organised in such a way as to allow effective management of the risks considered relevant and material by the novobanco Group - those to which top management pays special attention and which may impact the achievement of the objectives defined by the bank -, as well as risks considered as emerging - those where little is known about their components, and whose impact may occur over a longer time horizon.

The risks identified as relevant and material are quantified within the scope of the Internal Capital Adequacy Self-Assessment (ICAAP) exercise, the most relevant being:

i. credit risk, which includes default, counterparty and concentration risk,

ii. liquidity risk,

iii. market risk in the trading book and banking book, which includes interest rate risk (IRRBB), equities risk, credit spread risk, real estate risk and pension fund risk,

iv. operational risk, which includes operations risk, information systems risk, compliance risk, and reputational risk, and

v. business risk.

Emerging risks, which are closely monitored by the risk structures, include, among others, ESG risks.

In particular, with regard to ESG risks, novobanco is finalising a specific risk assessment exercise, aimed at a) understanding the (complex) transmission channels that link this category to the other risk categories; b) assessing their likely impacts, taking into account different climate transition scenarios; and c) strengthening the existing risk management and control practices.

ESG RISK MANAGEMENT

Approach to ESG risks

ESG risk management is integrated in the global sustainability framework of the novobanco Group, which comprises the following elements:

- The group-wide sustainability strategy, which sets the objectives, targets, actions and respective timings for the business areas; the internal governance, internal control and risk management strategy; the internal activities (i.e., own operations) strategy; and the internal and external reporting strategy.
- novobanco's disclosure approach regarding its sustainability objectives, such as: a) reduction of direct GHG emissions, in line with the global objectives of the Paris agreement; b) increased use of 'sustainable finance' instruments, namely through the commercial offer and investment policies, channelling direct financial support to the transition of the Portuguese economy; and c) adequate management of climate transition risks, systematically identifying and controlling its main factors;
- A governance and operational structure specifically adapted to this strategy, ensuring the existence in the first and second lines of internal organisation, of expertise and approaches/work plans directed at ensuring the fulfilment of novobanco's objectives.

This framework is directly led by the EBD, supervised by the GSB, with the participation of the EBD and the departmental heads more closely involved in the definition and implementation of the sustainability strategy.

At operational level, this framework is executed by dedicated work groups, which follow detailed action plans to ensure the timely achievement of the established objectives, in alignment with the defined strategy.

The developments at the level of the ESG risk component of the risk management system take place within these organisational structures and have three primary objectives:

- Compliance with the new regulatory requirements, namely those concerning the disclosure of non-financial information on the sustainability strategy and ESG risk management;
- Effective alignment with regulatory and supervisory expectations, with emphasis on a) implementation of the European Central Bank (ECB) Guide on climate-related and environmental risks (C&E) management; and b) participation in the ECB stress test exercises focused on C&E risks, starting in 2022;
- Implementation of enhanced procedures for ESG risk management, adjusted to the activity of the novobanco Group, with emphasis on a) routines for global monitoring of ESG risk exposure; b) integration in the business (commercial and financial) of specific controls for ESG risk factors, conducting the origination and monitoring of risk exposures - including the necessary procedures to implement the European Taxonomy for sustainable activities; and c) implementation of risk assessment practices, considering sensitivity analysis or scenario methodologies.

ESG risk profile

The definition of ESG risks focuses on the potential negative impacts deriving from the current or future effects of risk factors in clients and counterparties or in the bank's assets and liabilities, that are included in the current internal taxonomy of the novobanco Group, and in particular of climate change impacts.

The group is currently in the process of reviewing and updating its risk taxonomy - as part of the internal risk identification and assessment exercise - with the objective of recognising and reassessing the materiality of the impacts of the climate and environmental, and social and governance risk components.

Implementation of the European Taxonomy for sustainable activities

Regulation (EU) 2020/852 (i.e., European Taxonomy Regulation) and Delegated Regulation (EU) 2021/2178, establish i) a regime for the promotion of sustainable finance, defining the criteria to classify economic activities as sustainable from an environmental point of view and, ii) the content and methodology for information disclosure by the institutions covered by the application of the European Taxonomy.

novobanco has been taking the necessary steps towards alignment with the taxonomy criteria, namely by a) assessing and controlling the eligibility of its operations; and b) determining the operational requirements in terms of collection, confirmation and analysis of information - with its clients.

In line with the applicable requirements, and in particular with article 10 of the European Taxonomy Regulation, the novobanco Group complies with the following mandatory disclosures[12]:

- The proportion in its total assets of exposures to Taxonomy non-eligible and Taxonomy-eligible economic activities;
- The proportion in its total assets of the exposures referred to in Article 7 (1 and 2) of the Regulation;
- The proportion in its total assets of the exposures referred to in Article 7(3) of the Regulation;
- The qualitative information referred to in Annex XI of the Regulation.

Quantitative disclosures under Regulation (EU) 2020/852

Requirements of Article 10 of the European Taxonomy Regulation, paragraph 2:

Euros	Eligible	Non-eligible	Total	% of total assets
Total assets[13]	---	---	100%	44 943 252 450
Of which the proportion of the trading portfolio and on demand inter-bank loans in total assets.	---	---	0.95%	427 460 000
Exposures to central governments, central banks and supranational issuers			14.76%	6 632 101 922
Exposures to derivatives			0.59%	263 199 000
Exposures to companies not subject to the Non-financial Reporting Directive[14]			15.77%	7 085 810 507

Qualitative disclosures under Regulation (EU) 2020/852

Contextual information in support of the quantitative indicators

The data reported in the previous section relate to consolidated financial information, collected directly from the systems of the novobanco Group with reference to 31 December 2021.

Taking into consideration the European Commission guidelines (FAQs), the reporting of information based on estimates is only provided on a voluntary basis. The sector-specific information used, even if collected directly from the Bank's clients and maintained in its information system, is considered an estimate. Thus, and considering the timetable for application of the European Taxonomy Regulation to the non-financial sectors, factual information that would allow compliance with the eligibility requirements is not yet available.

With regard to the scope of application of the Non-Financial Reporting Directive (NFRD), the novobanco Group does not yet have complete information, collected from its clients, that would allow it to classify its positions in terms of the application of the NFRD.

Therefore, the NFRD coverage analysis resorted to external databases to obtain: a) a list of companies classified as Public Interest Entities (PIE) and, therefore, obliged to apply the NFRD; and b) number of employees. In addition, the transparency reports of the main national audit firms were also analysed to confirm this information.

Description of the compliance with Regulation (EU) 2020/852 in the financial undertaking's business strategy, product design processes and engagement with clients and counterparties

As described in the previous chapters, the novobanco Group has been implementing a group-wide sustainability strategy, which comprises the operational implementation of the European Taxonomy, focusing on the following elements:

- Adoption of the Taxonomy, based on estimates, to ensure regular monitoring of new production and balance sheet exposures;
- Definition of operational requirements for the implementation of the Taxonomy in lending and investment processes, including: a) establishment of principles of segmentation of clients and operations, to enhance the definition of the information to be collected; b) controls to be carried out on the information provided by the clients; and c) adaptation of the information system for the collection and maintenance of the Taxonomy indicators;
- Establishment of monitoring and dissemination practices of legal and regulatory changes, with a view to the timely adoption of the developments still expected in the field of the European Taxonomy.

12. According to the European Commission's clarifications (December 2021 FAQ), eligibility estimates may only be reported on a voluntary basis. Bearing in mind the timetable for implementation of the European Taxonomy, particularly with regard to the non-financial business sector, no information is yet available (e.g., prepared by novobanco's clients) to enable eligibility reporting on a factual basis.

13. O total de ativos refere-se ao valor do balanço do Grupo novobanco, segundo consolidação prudencial e não ao total de ativos enquadráveis no rácio de ativos ecológicos (i.e., GAR%, na definição inglesa).

14. Considers companies that, due to their size, are not covered by the NFRD (i.e., SMEs). The eventual exemption of companies outside the Eurozone was not considered.

RISK MANAGEMENT IS CONSIDERED VITAL FOR THE GROUP

Risk Management, being vital for the development of NBG's activity, is centralised in the Risk Management Function, which comprises the Global Risk Department (GRD) and the Rating Department (RTD). It defines holistic principles for risk management and control, in close coordination with the remaining 2nd line units of novobanco Group, and with the Internal Audit Department. Moreover, the Risk Management Function continuously monitors and assesses ESG Risks in close coordination with the Sustainability area (DDAE- Strategy Development and Implementation Department), which contributes specific knowledge to the understanding of climate and environmental risk factors and social risk factors.

All materially relevant risks are reported to the Management and Supervisory bodies (as applicable, EBD, GSB, Risk Committees and specialised committees), which are responsible for supervising, monitoring, assessing and defining the Risk Appetite and control principles implemented.

At operational level, the GRD centralises novobanco Group's Risk Management Function, namely in terms of the responsibilities inherent to the function, supervising the Group's various materially relevant financial institutions and ensuring independence vis-à-vis the business areas.

The Head of novobanco Group's Risk Management Function is the Head of the GRD. To ensure maximum efficiency in the articulation with the GRD, a local Risk Function Officer has been appointed in each relevant entity of the novobanco Group. The GRD acts either directly or as coordinator, in articulation with the units in charge of the local Risk Management Function.

The Risk Appetite framework defines:

The material risks to which NBG is exposed → The risk appetite statements → The roles and responsibilities in risk management → The organisation and function in risk management → Governance and risk decision-taking and monitoring committees

This framework aims to ensure compliance with the strategy of maximising value for the Client - one of the relevant stakeholders along with employees, shareholders and the community -, protecting the strength of the organisation through rational and solid risk management.

Risks	Concept	Management	Risk Appetite	Focus in 2022
Credit	The risk of financial loss arising from the failure of a borrower or counterparty to honour the contractual obligations established with novobanco within the scope of its lending activity.	Management and control of risks of this nature are based on an internal risk identification, assessment and quantification system, as well as on internal processes for assigning ratings and scorings to portfolios and their continuous monitoring in specific decision forums.	Conservative risk appetite.	Reinforcement of the bank's operational capacity to manage credit exposures in the post-moratoria context, identifying early signs of financial deterioration and defining strategies for timely action on viable debtors in need of support measures to ensure their adequate debt service. Reinforcement of remote service models and creation and development of automated credit assessment and decision tools. Reinforcement of the continuous monitoring processes of the various loan portfolios.

Risks	Concept	Management	Risk Appetite	Focus in 2022
Liquidity	The current or future risk deriving from an institution's inability to satisfy its commitments as they mature, without incurring excessive losses.	Based on the measurement of liquidity outflows from contractual and contingent positions in normal or stress situations, the management and control of this risk consists, on the one hand, in determining the size of the liquidity pool available at any given time and, on the other hand, in planning for stable sources of funding in the medium and long term.	Solid liquidity position. Funding of medium- and long-term assets through stable liabilities. Withstanding liquidity stresses for a minimum of 12 months. Compliance at all times with the limits imposed by the legislation in force.	Maintenance of risk control monitoring and management processes, ensuring the timely detection of changes in the risk profile, and the bank's aligned compliance with the established risk appetite. To be continuously updated on the regulatory framework.
Market	The risk of a potential loss resulting from an adverse change in the value of a financial instrument due to fluctuations in interest rates, foreign exchange rates, equity prices, commodity prices, real estate prices, volatility and credit spreads.	A GRD expert team centralises the management and control of NBG's market risk and interest rate risk on the banking book (IRRBB), in line with the regulations and risk good practices.	Monitoring of net interest income, market Investments as well as balance sheet interest rate risk through predefined risk appetite rules.	Processes for continuous monitoring of market risks allowing to assess the impact of changes in market factors, namely volatility and interest rate levels. Development and maintenance of internal models and stress testing exercises to measure and control market risk and IRRBB, as well as calculation of economic capital under ICAAP and regulatory capital under the Fundamental Review of the Trading Book. To be continuously updated on the regulatory framework.

Risks	Concept	Management	Risk Appetite	Focus in 2022
Operational	The risk of occurrence of events with negative impacts on results or equity, resulting from inadequacies or weaknesses in procedures or information systems, staff behaviour, or external events, including legal risk. Operational risk is, therefore, understood to be the sum of the following risks: Operations, Information Systems, Compliance and Reputational.	A GRD expert team defines the Operational Risk Policies, with other units, namely the Compliance Department and the Information Security Office issuing specific risk Policies. The effectiveness of operational risk identification and control methodologies is ensured though the activity of the operational risk management Representatives appointed for each organisational Unit, who promote the risk culture in the first line of defence in continuous collaboration with the GRD.	The operational risk appetite defined for the novobanco Group covers the various categories under this risk. This appetite reflects the infeasibility of eliminating operational risk from a cost-benefit perspective as well as novobanco Group's high ethical and conduct standards, thus implying zero tolerance for breaches of conduct.	Reinforcement of compliance with the established risk appetite; Strengthening of the risk culture, particularly in the first line of defence, as support for action and decisions aligned with the risk strategy and appetite across the various levels of the organisation, promoting a more robust control of risk. Strengthening of the Fraud Risk framework in light of the increased sophistication of fraud typologies, in particular cyber risk, by enhancing the prevention and control mechanisms. Updating of the identification and assessment methodologies for non-financial risks, to include ESG risk.
ESG Risk	Risks of occurrence of financial losses arising from current or future impacts of ESG factors on novobanco's clients, counterparties or assets. ESG factors are climate and environmental, social or governance issues that may have a positive or negative impact on the financial performance or solvency of an entity, institution or person.	The management of ESG risk results from the joint approach of specialised teams from the GRD, RTD, and DDAE, which define the guidelines to be followed for any new business and for monitoring existing positions, in order to minimise novobanco's exposure, in particular to transition risks and physical risks. In addition, it is supported by methodologies to assess and monitor the risk factors, which, consistently with the applicable regulations, allow novobanco to monitor the evolution of the risk profile of its balance sheet positions.	Application of specific exclusion and safeguard policies, namely for activities with higher ESG risk (in the environmental, social and governance dimensions). Definition of global goals and guidelines to steer new credit production according to ESG assessment criteria; Implementation of global risk assessment methodologies, at the level of the credit portfolio, to identify and monitor the main ESG risks on the balance sheet.	Participation in the ECB's climate risk stress test exercise, which will strengthen the understanding and anticipation of the impacts of these risks; Application of the criteria established by the EU Taxonomy (and applicable in 2022), allowing the first characterisation of the bank's portfolios; Reinforcement of the integration between ESG risk methodologies and business planning and execution, namely regarding the implementation of risk classification methodologies (Ratings & Taxonomy) and respective guidance on credit decision and monitoring.

5.0 CORPORATE GOVERNANCE

5.1 Shareholder Structure
5.2 Corporate Bodies: Composition and Functioning
5.3 Internal Control
5.4 Main Policies
5.5 Credit to Members of the Corporate Bodies
5.6 Remuneration of the Members of the Corporate Bodies And Identified Staff
5.7 Securities Held by Members of the Management and Supervisory Bodies
5.8 Non-Material Indirect Investment in Novo Banco

Rui Duarte
South Retail Department - Senior Business Client Manager

5.1 SHAREHOLDER STRUCTURE

5.1.1 Qualified holdings in Novo Banco's share capital

The share capital of Novo Banco totals €6,054,907,314 (six billion, fifty-four million, nine hundred and seven thousand, three hundred and fourteen euros), divided into 9,954,907,311 (nine billion, nine hundred fifty-four million, nine hundred and seven thousand, three hundred eleven) nominative dematerialised shares with no nominal value, fully subscribed and paid up.

Qualified holdings in Novo Banco's share capital on the date of signature of this Report:

SHAREHOLDER	NUMBER OF SHARES	% OF SHARE CAPITAL
Nani Holdings S.G.P.S., S.A.	7 466 180 483	75.00%
Fundo de Resolução	2 333 819 514	23.44%
Direcção-Geral do Tesouro e Finanças	154 907 314	1.56%

5.1.2 Equity holders with special rights

There are no shareholders with special rights.

5.1.3 Restrictions on voting rights

By virtue of the commitments assumed by the Portuguese State before the European Commission in the context of the approval of the sale of a 75% holding in the share capital of Novo Banco under European Union rules on State aid, the shareholder Resolution Fund should refrain from exercising its non-economic rights, namely its voting rights.

5.2 CORPORATE BODIES: COMPOSITION AND FUNCTIONING

5.2.1 Composition and functioning of the management and supervisory corporate bodies and changes in the Company's Articles of Association

Under the terms of the Company's articles of association, the corporate and statutory bodies of novobanco are the Shareholder's General Meeting, the General and Supervisory Board, the Executive Board of Directors, the Monitoring Committee, the Statutory Auditor and the Company's Secretary. The members of the corporate bodies are elected for four-year mandates and they may be re-elected once or more than once.

Also in accordance with the Articles of Association, the members of the Board of the Shareholder's General Meeting, General and Supervisory Board, and Monitoring Committee are elected by the Shareholder's General Meeting. The Shareholder's General Meeting also has the powers to appoint and replace the bank's Statutory Auditor, acting upon a proposal of the General and Supervisory Board, based on a proposal of the Financial Affairs (Audit) Committee. The members of the Executive Board of Directors are appointed by the General and Supervisory Board. The Company's Secretary and Alternate Secretary are appointed by the EBD, after consulting with the GSB.

5.2.2 Amendments to the Articles of Association

Changes to novobanco's Articles of Association are the responsibility of the Shareholder's General Meeting.

In December 2021, an amendment was made to the Articles of Association of Novo Banco with regard to Article 4 (Share Capital and Shares), which has the following wording:

"1. The share capital of Novo Banco totals €6,054,907,314 (six billion, fifty-four million, nine hundred and seven thousand, three hundred and fourteen euros), divided into 9,954,907,311 (nine billion, nine hundred fifty-four million, nine hundred and seven thousand, three hundred eleven) nominative dematerialised shares with no nominal value, fully subscribed and paid up."

5.2.3 General and Supervisory Board

The GSB is the supervisory body of novobanco and its members are elected by the Shareholder's General Meeting.

In October 2020, the General Meeting of novobanco appointed the following members of the General and Supervisory Board for the 2021-2024 mandate:

Byron James Macbean Haynes – Chairman	**Benjamin Friedrich Dickgiesser**
Karl-Gerhard Eick – Vice-Chairman	**John Ryan Herbert**
Donald Quintin	**Robert Alan Sherman**
Kambiz Nourbakhsh	**Carla Antunes da Silva**
Mark Andrew Coker	**William Henry Newton**

All members of the previous term were reappointed for the new term, adding a 10th member to the CGS with the appointment of William Henry Newton, for his first term (2021/2024). Thus, the CGS is now composed of 10 (ten) members.

At the date of this Report, 6 (six) of the 10 (ten) members of the General and Supervisory Board, including its Chairman, are independent.

The General and Supervisory Board has the powers vested upon it by law and by the Articles of Association, having as main functions to regularly monitor, advise and supervise the management of novobanco and of the Group companies, as well as to supervise the Executive Board of Directors with regard to compliance with the relevant regulatory requirements of banking activity. Additionally, the General and Supervisory Board has specific powers to elect the members of the Executive Board of Directors and responsibilities in granting previous consents for approval by the Executive Board of Directors of certain matters established in the Articles of Association, namely in what concerns the approval of (i) credit, risk and accounting policies, (ii) business plan, budget and activity plan, (iii) change of registered address, and closure or changes to representation structures abroad, (iv) capital expenditure, debt or refinancing, sales or acquisitions, creation of liens or granting of loans above certain limits and within certain conditions, (v) practice or omission of any material act related with the Contingent Capital Agreement; and (vi) hiring of employees with annual remuneration above certain limits.

The General and Supervisory Board holds meetings on a monthly basis. The Chairman of the General and Supervisory Board and the Chief Executive Officer maintain regular, and at least weekly, dialogue and communication between them.

In its activity, the General and Supervisory Board is directly supported by 5 (five) Committees, the Financial Affairs (Audit) Committee, the Risk Committee, the Compliance Committee, the Nomination Committee and the Remuneration Committee, these holding the legal required powers and other powers delegated to the General and Supervisory Board.

These Committees are composed of and chaired by independent members of the General and Supervisory Board. Their meetings may also be attended by members of the Executive Board of Directors responsible for the matters that are dealt with by said committees.

> Financial Affairs (Audit) Committee

The Financial Affairs (Audit) Committee has monitoring and supervision responsibilities concerning the financial performance of the bank and other financial entities included in the prudential consolidation perimeter, the accounting and accounts reporting policies and procedures and the follow-up of the external auditor, and in particular, has the powers provided for in the Companies Code.

This Committee also has delegated powers of the General and Supervisory Board with regard to, among others, material changes to accounting policies, the approval of the annual budget, and prior consent to the issuance of certain debt instruments.

In addition, this Committee supports the General and Supervisory Board in overseeing the effectiveness of the internal control system, risk management system and internal audit system of the bank and of the financial companies within its scope of prudential consolidation.

At the signature date of this Report the members of the Financial Affairs (Audit) Committee are the following:

Chairman: Karl-Gerhard Eick
Byron James Macbean Haynes
Kambiz Nourbakhsh

> Risk Committee

The Risk Committee advises and supports the General and Supervisory Board in monitoring the bank's actual and future global risk appetite and risk strategy as well as the effectiveness of the internal control system and risk management system of the bank and the financial companies included in its prudential consolidation perimeter.

This Committee also has the powers provided for by law and the delegated powers of the General and Supervisory Board with regard to certain credit transactions and changes in risk policies.

At the signature date of this Report the members of the Risk Committee are the following:

Chairman: William Henry Newton[15]
Byron James Macbean Haynes
Karl-Gerhard Eick
Kambiz Nourbakhsh
Benjamin Friedrich Dickgiesser

15. Became Chairman of Risk Committee in April 2021, after F&P approval by the regulatory authorities

> Compliance Committee

The Compliance Committee advises and supports the General and Supervisory Board, among others, in monitoring compliance issues pertaining to the bank, the members of corporate bodies and employees, internal policies and processes related to compliance, policies on business conduct and ethics, and compliance and reputational risk.

In addition, it has delegated powers in matters related to related parties (except for transactions between the bank and shareholders and their related parties, a non-delegable matter that falls to the General and Supervisory Board).

The above functions also extend to the following financial subsidiaries: BEST, novobanco Açores and GNB Gestão de Ativos.

At the signature date of this Report the members of the Compliance Committee are the following:

Chairman: Robert Alan Sherman
John Ryan Herbert
Mark Andrew Coker

> Nomination Committee

The Nomination Committee supports the General and Supervisory Board in overseeing the Executive Board of Directors' action in the establishment of, and in ensuring compliance with, consistent and well-integrated nomination policies at the bank and the following financial subsidiaries: BEST, novobanco Açores and GNB Gestão de Ativos companies.

At the signature date of this Report the members of the Nomination Committee are the following:

Chairman: John Ryan Herbert
Robert Alan Sherman
Donald John Quintin
Mark Andrew Coker
Carla Antunes da Silva

> Remuneration Committee

The Committee advises and supports the General and Supervisory Board in the establishment of adequate, consistent and well-integrated remuneration policies in the bank and in monitoring the implementation of remuneration policies in the bank and in its financial subsidiaries BEST, novobanco Açores and GNB Gestão de Ativos companies.

This Committee also has several delegated powers, including with regard to the remuneration of the members of the CAE and identified employees, as well as to the hiring of employees with annual remuneration above €200,000.00.

At the signature date of this Report the members of the Remuneration Committee are the following:

Chairman: Byron James Macbean Haynes
Karl-Gerhard Eick
Benjamin Friedrich Dickgiesser

The company documents and main regulations can be accessed at www.novobanco.pt > Institutional > Governance > Company Documents

5.2.4 Executive Board of Directors

The members of the Executive Board of Directors (EBD) are appointed by the General and Supervisory Board, which also appoints the Chief Executive Officer (CEO).

Regarding the composition of the EBD, the members of the EBD in office at the date of this report (identified in point 1.2 Who We Are - Organisation) are the following:

António Manuel Palma Ramalho Chief Executive Officer	**Luísa Marta Santos Soares da Silva Amaro de Matos** Chief Legal & Compliance Officer
Mark George Bourke Chief Financial Officer	**Luís Miguel Alves Ribeiro** Chief Commercial Officer (Retail)
Rui Miguel Dias Ribeiro Fontes Chief Risk Officer	**Andrés Baltar Garcia** Chief Commercial Officer (Corporate)

In 2021, there were no changes to the composition of the Executive Board of Directors.

Committees of the Executive Board of Directors

The activity of the EBD is supported by several Committees. In accordance with its rules of procedure, the EBD may establish committees to complement its own management activity, ensuring the monitoring of the bank's activity in areas that are considered relevant.

> Risk Committee

Responsible for issuing an opinion on, approving, under the powers delegated by the Executive Board of Directors, and monitoring novobanco Group's policies and risk levels. In this context, the Risk Committee is responsible for monitoring the evolution of GNB's integrated risk profile, and for analysing and proposing methodologies, policies, procedures and instruments to deal with all types of risk, namely credit, market, liquidity and operational.

Chairman: Rui Fontes

> Financial and Credit Committee

Responsible for deciding the main credit operations in which the novobanco Group participates, in line with the risk policies defined for novobanco Group.

Chairman: António Ramalho

> Capital, Assets and Liabilities Committee (CALCO)

Responsible for the definition of the balance sheet management policies (capital, pricing, and interest rate, liquidity and foreign exchange risk) and for monitoring their impact at novobanco Group level. The CALCO also monitors early warning indicators with regard to the Recovery Plan and Liquidity, proposing mitigation measures, and if necessary, triggering the recovery plan and/or the liquidity contingency plan.

Chairman: Mark Bourke

> Internal Control System Committee

The Committee monitors all issues related to novobanco Group's Internal Control System, without prejudice to the responsibilities attributed in this regard to the Executive Board of Directors and other Committees in place at novobanco Group, namely the Risk Committee, the Operational Risk Subcommittee and the Compliance and Product Committee.

Chairman: Rui Fontes

> Compliance and Product Committee

Responsible for approving, from a compliance standpoint, products and services to be developed and/or distributed by the bank, issuing an opinion on all of them within the scope of the products' sign-off process in force, as well as monitor the issues related to control implementation, without prejudice of competences of other governing bodies and GSB Committees.

Chairwoman: Luísa Soares da Silva

> Digital Transformation Committee

Responsible for defining and driving digital transformation at novobanco.

Chairman: António Ramalho

> Costs and Investments Committee

Responsible for approving the execution of expenses, within the limits of the powers conferred upon it. Its objectives include the definition of an annual expenditure plan and the revision of the acquisition's strategy.

Chairman: Mark Bourke

> Impairment Committee

Responsible for defining the amount of impairment to be allocated to each client, when novobanco has an exposure above €100 million to that client or group of clients.

Chairman: Rui Fontes

In addition, the Executive Board of Directors has set up 3 (three) subcommittees, (i) Non-Performing Assets (NPA) Subcommittee; (ii) Extended Models Risk Subcommittee; (iii) Operational Risk Subcommittee and 7 (seven) steering groups for the areas of (i) Retail, (ii) Corporate Clients, (iii) Human Capital, (iv) Management Information System (MIS), (v) Investment, (vi) Business Monitoring and (vii) ESG. The Steering Groups have no rules of their own, their composition and rules of procedure being decided on a case-by-case basis by the members of the Executive Board of Directors.

5.2.5 Monitoring Committee

The Monitoring Committee is a statutory advisory body ruled by the Articles of Association and deriving from the CCA. It is composed of three members elected by the Shareholders' General Meeting, one of whom to act as Chairman. The composition of the Monitoring Committee must respect the following criteria: one of its members must be independent from the parties to the CCA, and another shall be a registered charter accountant. Two of its members are appointed by the Resolution Fund.

The Committee has as main tasks to discuss and issue (non-binding) opinions on any Relevant Issue concerning the CCA upon which it is requested to issue an opinion. The members of the Monitoring Committee are entitled to attend as observers and speak (but note vote) at all meetings of the GSB.

5.2.6 Supervision

Supervision is the responsibility of the General and Supervisory Board and the Statutory Auditor.

The Statutory Auditor and Alternate Statutory Auditor are elected and removed by the Shareholders' General Meeting, under a proposal of the General and Supervisory Board, on a proposal from the Financial Affairs (Audit) Committee, and have the powers and responsibilities provided for in the law.

5.2.7 Powers of the management body

Including regarding resolutions on share capital increases

The Executive Board of Directors is the corporate body in charge of the management of the bank. Under the law and the Articles of Association, and respecting the powers of the other corporate bodies, it is responsible for defining the general policies and strategic objectives of the bank and of the group and for ensuring the activity not comprised within the functions of other bodies of the bank, in compliance with the rules and standards of good banking practice.

The EBD has no powers to resolve on capital increases, or on the issuance of securities convertible into shares or securities granting subscription rights, such decisions being the exclusive responsibility of the Shareholders' General Meeting. In the case of securities' issuance, it requires the prior opinion of the GSB.

5.3 INTERNAL CONTROL

DEFINITION AND OBJECTIVES

Internal Control is integral to the running of the organisation, combining strategies, policies, processes, systems and procedures to ensure the medium- and long-term sustainability of the institution and the prudent exercise of its activity.

An efficient and effective internal control system is key for the organisation to ensure:

- The fulfilment of the objectives set out in strategic planning, through the efficient execution of operations, the efficient use of the institution's resources and the safeguarding of its assets;
- The proper identification, assessment, monitoring and control of the risks to which the institution is or may come to be exposed;
- The existence of comprehensive, relevant, reliable, and timely financial and non-financial information;
- The adoption of solid accounting principles;
- Compliance with the legislation, regulations and guidelines applicable to the institution's activity, issued by the competent authorities, with the institution's own internal regulations, and with professional and ethical standards and practices and with rules on conduct and relationship with clients.

Internal Control concerns all the members of the management and supervisory bodies, and Institution's employees, who perform their duties in accordance with internal policies and standards of ethics, integrity and professionalism, also applying to the structural units responsibilities and to all the institution's business segments, outsourced activities, and product distribution channels.

Each employee has a role to play as well as duties and responsibilities, which contribute to ensure the efficiency and effectiveness of Internal Control.

The Executive Board of Directors is the body with ultimate and global responsibility for the institution and that which defines, supervises and is responsible for the implementation of an adequate Internal Control System, with a clear organisational structure and independent and efficient functions in terms of risk management, compliance and audit.

In turn, it is incumbent upon the General and Supervisory Board, among other duties detailed in the bank's Articles of Association, to ensure that the Executive Board of Directors establishes and maintains adequate, independent and effective internal control, in compliance with the law, regulations and internal policies.

novobanco Group's Internal Control System is consistently implemented across all the financial entities of the Group where management control exists, without prejudice to additional requirements of host territories and of the specificities of the functions involved in the System.

GENERAL PRINCIPLES

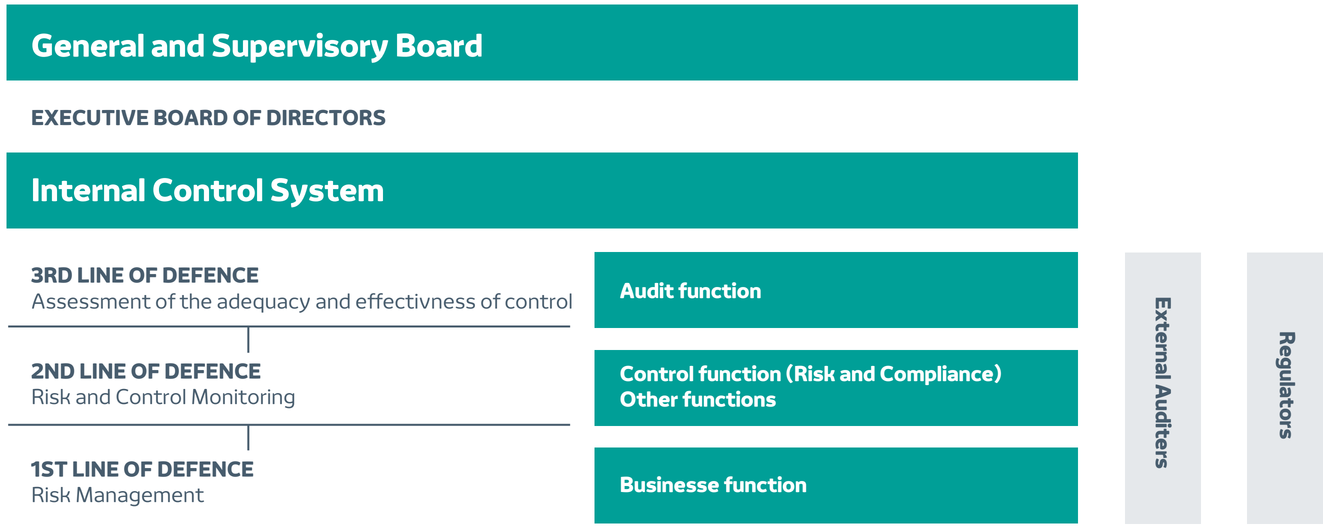
In order to effectively achieve the defined objectives, novobanco Group's Internal Control System is based on the following principles:

- Adequate control environment reflecting the importance recognized by novobanco Group for the Internal Control System and whose organization is supported by a model of 3 lines of defence, which defines the levels of responsibility in terms of governance and risk management for the different functions that integrate each line, including permanent, independent and effective Internal Control functions;
- Solid risk management system, designed to identify, assess, monitor and control all risks that may influence the strategy, risk appetite and objectives of novobanco Group (as detailed in section 4.3 – Risk Management);
- Efficient information and communication system that guarantees the capture, treatment and exchange of relevant, reliable, complete, comprehensive and consistent information, in a timely manner and in a way that allows effective and timely management and control of the activity and the inherent risks;
- Effective monitoring process, implemented to ensure the adequacy and effectiveness of the Internal Control System over time, ensuring in particular the timely identification of any deficiencies and opportunities for improvement that will enable the Internal Control System to be strengthened, promoting the triggering of corrective actions.

Under novobanco Group's Internal Control System, policies, processes, procedures, systems and controls are formalised in internal standards, process catalogues, internal control manuals, presentations supporting the main committees involved in the management of risk, information and communication, control function reports, and in the Annual Self-assessment Report itself.

3 LINES OF DEFENCE MODEL

The Internal Control System is grounded on the 3 lines of defence model, which clearly defines the levels of intervention and responsibility in risk management and in the execution of controls, in order to guarantee the adequacy and overall effectiveness of Internal Control within in the organisation.



The **1st line of defence** is held by the organisational units that daily assume and manage the risk of their activities, of the IT processes and systems they sponsor, and of the outsourced activities under their responsibility, within pre-established limits set by the Executive Board of Directors.

These units are responsible for the continuous identification, assessment and control of risks in the activities under their responsibility. It is up to them to defend the institution from taking risks that are not duly mitigated. Maintaining effective internal controls and conducting established control procedures is also their responsibility.

The mission of the **2nd line of defence** is to maintain the bank within its risk limits by controlling, measuring and monitoring risks and reporting any deviations relative to the risk policies in force. This line of defence comprises the “Risk Management” and “Compliance” Control Functions, for which the Global Risk and the Rating Departments, and the Compliance Department are respectively responsible, being complemented by activities carried out by other departments of the bank (e.g., Accounting, Consolidation and Taxation Department, Internal Control and Data Protection Department, Chief Information Security Officer).

The 2nd line of defence defines risk management and control policies, methodologies and tools, exercising functional supervision and monitoring over the effectiveness of the 1st Line, controls legal and regulatory compliance, and reports to the bank’s management and supervisory bodies as well as to the competent external authorities, when applicable.

The **3rd line of defence** is held by the Internal Audit Department, and its mission is to assess, independently and based on risk, the adequacy and effectiveness of the entity’s organizational culture and its governance and internal control systems.

To ensure its necessary independence, the internal audit function:

- Reports functionally to the Financial Affairs (Audit) Committee of the General and Supervisory Board, and administratively (i.e., daily operations) to the Chief Executive Officer;
- Performs its activity in accordance with a pre-established plan and a risk-based approach. This plan is approved by the Financial Affairs (Audit) Committee and acknowledged by the General and Supervisory Board;
- Cannot have any kind of responsibility or authority over the design, implementation and execution of the control procedures which it audits.

The Executive Board of Directors may request information and opinions from the internal audit function, namely in matters of risk, internal control and compliance.

Additionally, and as external intervenient in the defence of the Internal Control System (4th line of defence):

- the Statutory Auditor, bearing in mind its functions, acts as an additional line of defence, essentially of an account’s supervision nature, including within the scope of the internal control report; and
- the Supervision Authorities (European Central Bank and Banco de Portugal) act as the last line of defence, monitoring and promoting compliance with prudential rules at financial level and at the level of people, incentives schemes, governance structures, systems and processes. The intervention of the supervision authorities does not exempt the institution from its responsibility of ensuring sound and prudent management and compliance with the prudential rules.

This line of defence external to the bank promotes a strong risk culture as well as a more efficient risk management within the parameters institutionally defined for the purpose. In this context, these entities contribute in the following manner: (i) they provide guidelines/recommendations and supervise the governance of the bank, including through detailed assessments and regular interaction with the Executive Board of Directors and top management; (ii) request improvements and remediation measures, when and if necessary.

Control Functions Independence

The independence of the control functions is ensured through implementation of the following mechanisms:

- Internal authority: the functions are established at an appropriate hierarchical level and report hierarchically to the Executive Board of Directors and functionally to the General and Supervisory Board and respective committees, regularly participating in the meetings of these bodies;
- Head of function: the person responsible for the control function does not carry out activities in business or support areas that are subject to control;
- Human Resources: the employees allocated to these functions only perform control functions and are independent of the negotiation and support units that they supervise and control. However, they are not isolated from them, and are familiar with their activity. The control functions have an adequate number of qualified employees (at both the bank and in its branches and subsidiaries);
- Remuneration: the remuneration of control function employees is not linked to the results of

the activities which they supervise and control, nor does it compromise, in any other way, their objectivity;

- Technical resources and organisation: the functions have adequate technical resources at their disposal and are organisationally independent from each other;
- Scope: the bank's control functions carry out supervision activities over the control functions of its branches and subsidiaries.

5.4 MAIN POLICIES

For novobanco Group, the legal framework that regulates its activities is as decisive for its course of action as the set of values, principles and good practices which it assumes and which steer its actions and define the standards that shape the manner in which the Group does business and carries out its activities. The existence and application of a Code of Conduct, policies on the Prevention of Conflicts of Interest, a Whistleblowing Policy and an Anti-Bribery and Anti-Corruption Policy are therefore paramount across the entire novobanco Group. Additionally, but no less importantly, the scrutiny and transparency requirements of the Related-Party Transactions Policy, the strict application of the Law and Policies on the Prevention of Money Laundering and Terrorist Financing, the care and transparency towards clients and investors derived from the Investor Protection and Market Transparency Policies, and the assurance of sound and prudent management ensured by the Remuneration Policies for the Management and Supervisory Bodies and for the Employees, altogether provide evidence of the importance that novobanco attributes to the compliance culture dimension.

The commitment assumed by novobanco Group focuses on the prevention, detection, reporting and management of situations involving risks of conduct or irregular conducts, based on principles of integrity, honesty, diligence, competence, transparency and fairness.

> CODE OF CONDUCT

The novobanco Group Code of Conduct came into force in 2015 and was revised and updated in 2021. The code applies to all the members of the management and supervisory bodies of the novobanco Group companies, to the employees of Novobanco and the novobanco Group companies, and also to providers of goods and services when such is contractually provided for, or mandatorily in the case of some outsourced services. The Code of Conduct promotes a set of rules and good practices to be followed by the employees in their relationship with the clients and with the bank itself and aims to ensure that everyone knows the ethical and professional principles and standards that should guide their performance and is aware of the need and importance to follow them so as to ensure that the interests of shareholders, employees and clients are at all times respected.

The Code of Conduct is available at novobanco's website, in Portuguese and English, at www.novobanco.pt > Institutional > Governance > Compliance > here.

Monitoring the application of the Code of Conduct and clarifying employees' doubts about its content and application is the responsibility of the Compliance Department.

In 2021, in novobanco, as a result of non-compliance with internal regulations in the performance of their duties, 9 employees received sanctions, namely: 4 dismissal without any indemnity or compensation; 2 cases of days of suspension without pay and with loss of seniority; and 3 registered reprimands.

> POLICY OF CONFLICTS OF INTEREST

The Policy of Conflicts of Interest establishes rules on the identification, management and monitoring of potential conflicts of interest in the various activities of novobanco and the novobanco Group, but also with respect to their corporate bodies, employees, and ultimately, their suppliers. It enables compliance with the applicable legal and regulatory provisions, namely Aviso nº3/2020 of Bank of Portugal, as well as with the recommendations of the European Central Bank, the European Banking Authority (EBA), and the Securities and Exchange Commission (CMVM), and seeks to ensure that any possible situation of conflict of interests identified is recorded, assessed, and, as the case may be, mitigated or, at limit, abstaining from action, by the group, the bank and its agents.

The Conflicts of Interest Policy, revised in 2021, is available at novobanco 's website, in Portuguese and English, at **www.novobanco.pt > Institutional > Governance > Compliance**

> RELATED-PARTY TRANSACTIONS POLICY

Novobanco's Related-Party Transactions Policy sets down rules aimed at identifying transactions concluded between novobanco and its Related Parties and at ensuring that the bank complies with several provisions and regulations, namely the Bank of Portugal's Notice no. 3/2020, the European Banking Authority (EBA) Guidelines on Internal Governance (EBA/GL/2017/11), and Articles 85 and 109 of the General Law on Credit Institutions and Financial Companies.

In this context, the control system implemented identifies those involved in transactions contracted with the bank, in strict compliance with the applicable legislation. The process of identification, analysis and validation is described in Internal Regulations. Certain assessments and approvals are mandatory prior to the conclusion of transactions (loan granting, placement or subscription of securities, real estate operations, acquisition or disposal of equity holdings or other contractual relationships). Specifically, proposed transactions with Related Parties must be submitted for analysis and opinion to the Compliance Department and the Risk Management function, for subsequent submission to the opinion of the Compliance Committee of the General and Supervisory Board (with subsequent ratification by the General and Supervisory Board), and for approval by the Executive Board of Directors.

The Related-Party Transactions Policy is available at novobanco 's website, in Portuguese and English, at **www.novobanco.pt > Institutional > Governance > Compliance**

During 2020, transactions were carried out with Related Parties (credit transactions, provision of services and other contracts) under which credit transactions, including extensions and renewals of limits, with persons and entities that as at 31.12.2021 were Related Parties of novobanco, reached a total amount of €1,709 million.

Article 85 of the General Law on Credit Institutions and Financial Companies stipulates that credit institutions may not grant credit, in any form or type, including the provision of guarantees, to members of their management or supervisory bodies and their relatives, or to companies or other collective bodies directly or indirectly controlled by them. However, the granting of credit to companies and other collective bodies not included in paragraph 1, of which they are managers or in which they have a qualifying holding is allowed under paragraph 8 of the same article 85. In this context, the Compliance Department issued favourable opinions on 18 credit transactions allowed under said paragraph 8 of Article 85, which subsequently received a favourable opinion and the approval of the Compliance Committee of the General and Supervisory Board, the approval of the Executive Board of Directors and the ratification of the General and Supervisory Board.

In addition, under Article 109 of the General Law on Credit Institutions and Financial Companies, credit granting to qualifying shareholders, or entities directly or indirectly controlled or in a group relationship with them is allowed, subject to certain limits. During 2021 novobanco did not conclude any credit transactions with qualifying shareholders, under said legal rule.

> WHISTLEBLOWING POLICY

novobanco remains strongly committed to the growing internalisation of a culture of compliance, namely entailing the reporting of undue or irregular behaviours or behaviours that go against the law, the regulations, good practices, and the bank's internal policies.

The Whistleblowing Policy regulates, through specific, independent and autonomous means, the reporting of irregularities by the bank's employees, as well as by service providers or any third parties, and its objectives are to preserve the bank's reputation, effectively protect its assets and those of its clients, and prevent or detect in advance any irregularities that may be committed.

The communication of irregularities - which may be anonymous but in any case guarantees at all times that the author is maintained confidential, providing he/she acts in good faith -, is made in writing and submitted through any of the following channels, at the choice of the author:

- Addressed to the Compliance Committee of the General and Supervisory Board: Avenida da Liberdade, 195, 14º, 1250-142 Lisbon, Portugal; or
- Through the form available at www.novobanco.pt; or via the intranet if the participant is an employee of novobanco; or
- By e-mail to the address: irregularidades@novobanco.pt

In 2021, five reports of irregularities were received which, following enquiries, proved to be unjustified.

The General and Supervisory Board is responsible for managing the irregularities communication system, ensuring the confidentiality of communications.

The Whistleblowing Policy is available at novobanco's website, in Portuguese and English, at **www.novobanco.pt > Institutional > Governance > Compliance**

> ANTI-BRIBERY AND ANTI-CORRUPTION POLICY

Corruption and bribery represent one of the key challenges in modern society and fighting them requires a joint effort by all sectors of society, including banking, which plays an important role in promoting a culture of public integrity. The fight against practices of corruption and bribery becomes everyone's responsibility, requiring the development of a new set of preventive duties and methodologies across organisations and public and private entities. The Anti-Bribery and Anti-Corruption Policy approved by the Compliance Committee of the General and Supervisory Board, and by the Executive Board of Directors aims to prevent and mitigate the risk of corruption and bribery, and related practices, reaffirming novobanco's commitment to building up integrity in society.

The Anti-Bribery and Anti-Corruption Policy is available at novobanco's website, in Portuguese and English, at **www.novobanco.pt > Institutional > Governance > Compliance**

> POLICIES ON THE PREVENTION OF MONEY LAUNDERING AND TERRORIST FINANCING

A bank's ability to detect and prevent activities capable of constituting money laundering is directly linked to its knowledge of certain key elements relating to its counterparties and their transactions.

The novobanco Group, through its Compliance Department, sets up the conditions that enable the bank to detect and prevent, through adequate policies and procedures, the possibility of the bank and the group being used as vehicles for money laundering or terrorist financing activities, such risks materialising to a significant extent within the financial system.

Aware of the challenge that this control and preventive action represents, the novobanco Group maintains the ongoing reassessment of the risks it incurs, by virtue of its business, operations and the geographies where it operates, endeavouring to identify weaknesses and areas of greater exposure, in order to ensure it has in place adequate methods of control and mitigation of money laundering or terrorist financing risks. The ability to prevent and, if possible, detect activities capable of constituting such crimes is directly linked to the bank's knowledge about its clients, their counterparties and the transactions they engage in, particularly at the following moments:

- Opening of contract or change of a party in an existing contract, through what is known as KYC (Know Your Customer) - i.e., the identification of contract parties, representatives and beneficial owners must be effectively established;
- Monitoring contracts' transactions - KYT (Know Your Transactions), spotting unusual situations, either beforehand or by contacting the client after the situation was detected.

- Analysis of counterparties risk in investment and divestment transactions, and of transaction and source of funds circuits, under the terms of the Law.

To that end, novobanco Group, using software tools with internationally recognised results to complement the experience of its human capital, has created and developed assessment models that will ensure that greater scrutiny is applied where this proves more necessary.

novobanco Group, complying with its regulatory obligations, develops training exercises in preventing money laundering and terrorist financing for all its employees (commercial and central structures, including senior management). Training can be remote or face-to-face, the latter mainly directed to new employees, and the objective is to equip them with skills that enable them to collaborate with the control functions in mitigating the risks inherent to the execution of their functions.

In 2021, novobanco maintained the training on money laundering and terrorism financing prevention, having provided 14 150 hours of online training (including 1 542 hours for senior management) and 88 hours of face-to-face training (of which 20 hours for senior management), making a total of 14 238 hours.

Training is seen as a key tool for a correct flagging by the employees of potential situations of money laundering and terrorist financing. On the other hand, it is also crucial for the purpose of the adequate fulfilment of the legal and regulatory duties to which the bank is subject.

The prevention of money laundering and terrorist financing is one of the foundations of confidence in the financial system and as such will continue to deserve permanent operational and strategic attention by the novobanco Group.

In 2021 the novobanco Group examined 5 851 new contracts, of which 75 were rejected. In addition, 2 391 other contracts were analysed, upon which their ownership was changed. It also analysed 13 161 transactions under existing contracts, of which 663 were reported to the competent authorities.

The bank's Policies on the Management of the Risk of money laundering and terrorist financing are available at novobanco's website, in Portuguese and English, at **www.novobanco.pt > Institutional > Governance > Compliance**

> POLICIES ON INVESTOR PROTECTION AND MARKET TRANSPARENCY

The Markets in Financial Instruments Directive, no. 2014/65/EU, of 15 May 2014 ("MiFID II), and related regulations, which entered into force in January 2018, aim to reinforce investor protection and increase the transparency and quality of the financial market operation and services provided, and cover all persons and entities operating in the markets in financial instruments. In addition, the national legislation on financial intermediation activities (in particular the Securities Code) and life insurance mediation (in particular Law 7/2019 of 16 January) constitutes the basic framework for fair and transparent action by financial market operators and, as such, for the novobanco Group.

To address the international trend towards a tightening of the duties of financial intermediaries - of transparency, legality, completeness of information, diligence and protection of investors -, as well as changes in the rules for marketing financial instruments, novobanco has adopted the best practices in terms of the governance of products and services, ensuring the prior assessment and subsequent monitoring of its offer, with the Compliance Department having extended responsibilities in this area.

In compliance with the legal framework, novobanco has approved its standards and policies, and discloses them in a dedicated area of its website, at **www.novobanco.pt > Produtos > Poupança e Investimento > Informação ao Investidor.**

The most salient aspects of these standards and policies are summarised below:

Recording and register of communications. novobanco is obliged to keep recordings and registers of all communications with Customers and potential Customers, with regard to all services, activities and operations carried out.

Customer classification. novobanco classifies its customers for the purpose of transactions in financial instruments into one of three categories: non-professional, professional and eligible counterparty. These classifications have implications on the level of protection allocated to the investor. The lower the knowledge and experience of the customer about markets and financial instruments the greater the level of protection.

Assessment of adequacy. In order to ensure that the financial instruments or investment services it provides suit its Customers' investment profile, novobanco asks its Customers and potential Customers to complete investor profile questionnaires, in order to obtain a more comprehensive and detailed image of, inter alia, their experience and knowledge of investment, their financial situation, their investment objectives (including capacity to withstand losses) and their risk tolerance. This sharing of information and knowledge permits to assess whether a given investment product or service is adequate to the specific situation of the investing client.

Safeguard of Customer Assets. The Securities Code sets forth that in all acts performed, as well as in accounting and transactions records, the financial intermediary should adopt procedures and implement measures permitting to maintain a clear distinction between its assets and the assets of each of its clients to ensure that the opening of proceedings for the insolvency, recovery of the company or reorganisation of the financial intermediary does not have effects on actions carried out by the financial intermediary on behalf of its clients. The financial intermediary may not utilise, for its own or a third party's benefit, the clients' financial instruments or exercise the rights inherent thereto, unless the holders have agreed thereto. novobanco has in place procedures that ensure compliance with these rules.

Offer screening process. novobanco has established procedures that govern the design, approval, distribution and monitoring of the products and services offered. These procedures provide for the screening of new products and services offers, and the monitoring of the existing offer.

> REMUNERATION POLICIES FOR THE MANAGEMENT AND SUPERVISORY BODIES AND STAFF MEMBERS

Under the terms and for the purposes of Regime Geral das Instituições de Crédito e Sociedades Financeiras ("RGICSF"), and Bank of Portugal Notice no. 3/2020, and for compliance with the disclosure duties related to the remuneration policies provided for therein, the Remuneration Committee has undertaken the annual review and assessment of these remuneration policies to be presented to, discussed and reviewed by the General and Supervisory Board and the Executive Board of Directors. A report prepared by the Remuneration Committee regarding the annual review and assessment

of the remuneration policy for the Management and Supervisory Bodies is to be submitted for approval at the General Shareholders' Meeting of novobanco.

Prior to the closing of the 2021 accounts, an assessment and review has been made by several novobanco departments (Human Capital, Legal, Compliance and Risk) with respect to the remuneration policies for the Management and

Supervisory Bodies and for Staff of novobanco and the group entities, to ensure full alignment of procedures and practices. The amendments made mainly concerned the following:

i. Update in line with current regulatory framework:
   a. EBA Guidelines on sound remuneration policies;
   b. Commission Delegated Regulation (EU) 2021/923;
   c. Regulation (EU) 2019/2088 of 27 November 2019 on sustainability-related disclosures in the financial services sector (SRD);
   d. Other applicable legislation.
ii. A more detailed description of the specific skills of each unit of the structure involved in the remuneration decision process and increased centralisation of the implementation of remuneration policies at group level, giving greater responsibility to the novobanco Remuneration Committee and the centralised structures of novobanco;
iii. Introduction of the possibility of setting up a talent retention programme for key employees.

These Policies have been prepared in accordance with the legislation in force on that date, and in particular with the RGICSF, Notice no. 3/2020, the EBA Guidelines 2021/04 relating to sound remuneration policies, and related legislation and reflect the objectives, strategy, structure and culture of the Bank, steered by principles of meritocracy and transparency.

The Remuneration Committee considers that the Remuneration Policies are adequate to the current situation of novobanco and that the incentives defined for the members of the Executive Board of Directors and for the different categories of employees, as well as the structure of those incentives, are aligned to the long-term objectives of the institution and of the various stakeholders.

The Governance of the Remuneration Policy provides for the involvement of several internal structures, namely the Remuneration Committee, the Risk Committee of the GSB, and also several Departments of the bank, including the Risk, Compliance, Audit, Legal, and Human Capital Departments, ensuring full alignment of the established practices with the applicable regulatory requirements and the higher interests of the institution.

i) Limits to remuneration in novobanco

Following the sale process of novobanco, and in the context of the State aid granted, the Portuguese State assumed certain commitments before the European Commission (State Aid no.SA.49275 (2017 / N)) up to the end of the Restructuring Period, whose termination is currently being reviewed by the European Commission and is pending confirmation (hereinafter the "Restructuring Period").

This situation entails the following limitations to the Remuneration of the Management and Supervisory Bodies and the Employees of novobanco:

- Up to 30 June 2020 the Bank could not pay any employee or Member of a Management or Supervisory Body a total annual salary (includes salary, pension contribution, premium/bonus) above 10 times the average annual salary of the employees of novobanco. In the period comprised between 30 June 2020 and the end of the Restructuring Period, this limit could be exceeded providing all the established viability commitments had been met. In any case, the Bank may attribute deferred bonuses for performance during the Restructuring Period, making the respective payment only at the end of this period.
- Up to the end of the Restructuring Period, the total remuneration and respective conditions of payment/attribution may be affected by non-compliance with the commitments referred to above. The Remuneration Policies are thus subject to changes resulting from the said commitments.

ii) Description of the Remuneration Policy of the Management and Supervisory Bodies

Policy Approval Powers. The approval of the Remuneration Policy of the Management and Supervisory Bodies is the responsibility of the General Meeting, upon proposal of the Remuneration Committee of the General and Supervisory Board, and this Committee is also responsible for, among others:

- Decide on the remuneration to be attributed to the members of the Executive Board of Directors, as well as their KPIs, and define and approve the budget for the total variable remuneration of employees, based, among other factors, on the operating results in the period;
- Verify if the existing remuneration policies are updated and if necessary propose the appropriate changes;
- Review the mechanisms and systems used to ensure that remuneration systems are consistent with sound and effective risk management and assess the criteria used to define remuneration and ex ante risk adjustment based on actual risk outcomes (Clawback or Malus);

General and Supervisory Board. Only the independent members of the General and Supervisory Board shall receive remuneration from novobanco, such remuneration being fixed only and paid 12 times per year. If applicable, the members of the General and Supervisory Board shall also be subject to the limitations referred to in 1) above.

Executive Board of Directors. The remuneration of the Executive Board of Directors consists of a fixed component and a variable component. The fixed remuneration is established according to the complexity, level of responsibility and skills required for the function, and is paid 14 times per year. The variable component of the remuneration is awarded on a discretionary basis, according to individual and collective performance assessment that takes into account quantitative and qualitative criteria. These criteria are set by the Remuneration Committee and informed in due time to the members of the Executive Board of Directors.

The following criteria are also considered in the process of attribution of variable remuneration

- It may only be attributed if it does not jeopardise the Bank's ability to maintain a solid own funds base, if the Bank has achieved a positive operational performance, and if its attribution is consistent with sound and effective risk management practices;
- It is subject to a maximum cap of 100% of the annual fixed remuneration, or as otherwise approved by the General Meeting;
- It is phased over a multi-year framework, being fully deferred proportionally over a minimum period of three years. However, during the Restructuring Period, the amounts attributed relative to 2019 2020 are 100% deferred and will only become a vested right and, consequently, will only be paid, at the end of that period, under the terms defined in the respective Policy.
- 50% of the amounts attributed shall take the form of "Remuneration Units", whose terms and conditions regarding the award, vesting and payment are defined in the Remuneration Units Regulation. The value of each "Remuneration Unit" is determined by the Remuneration Committee, according to financial indicators of the Bank, prior to settlement of any deferred amount.

Besides any commitment agreed in the hiring process under the form of a sign-on bonus or possible compensation for retention, no other Variable Remuneration shall be guaranteed in any way.

All amounts paid or deferred, regardless of whether they constitute vested rights, are subject to risk-based adjustments, Clawback and/or Malus, including those that are deferred as a result of the application of the limits established in point i) (Limitations on remuneration at novobanco).

In what concerns other benefits, such as Health Insurance or Mobile Phone, the internal policies defined for the purpose shall apply.

Identified Staff

Policy Approval Powers. The approval of the Remuneration Policy for Employees is the responsibility of the Executive Board of Directors, upon a proposal of the Remuneration Committee.

Selection of employees. The Bank's Employee Remuneration Policy includes specific chapters applicable to employees who have or may have a significant impact on novobanco's risk profile - classified as Identified Staff, as set forth in the Policy.

The list of Identified Staff is shared every year with the Bank of Portugal, under Bank of Portugal instruction no.18/2020.

Components of Remuneration. The Fixed Remuneration shall reflect the skills, experience and responsibility inherent to the function performed, and shall not depend on performance. The attribution of Variable Remuneration to the Identified Staff, as well as its annual amount, depends on the decision of the Remuneration Committee. When a Variable Remuneration exists, it is calculated based on individual and collective performance, taking into account the following principles:

- Performance must be assessed according to quantitative and qualitative criteria and through financial and non-financial variables;
- The period of assessment of performance and attribution of variable remuneration must be multi-annual - which implies that a substantial part of the amount attributed be deferred so as to take into account economic cycles and the management of risk -, and promote the retention of Identified Staff;
- The existence of risk adjustment mechanisms (Malus and Clawback), as described in the Remuneration Policy;
- The amount attributed is limited to 100% of the annual Fixed Remuneration or as otherwise approved by the General Meeting;
- 50% of the amounts attributed shall take the form of "Remuneration Units", whose terms and conditions regarding the award, vesting and payment are defined in the Remuneration Units Regulation. The value of each "Remuneration Unit" is determined by the Remuneration Committee, according to financial indicators of the Bank, prior to settlement of any deferred amount.
- Variable remuneration can only be guaranteed in the first year after hiring and then in the form of a sign-on bonus.
- The remuneration limits defined in point i) above also apply to these employees.

iii) Disclosure of Remuneration

Refer to point 5.6 Remuneration of the members of the Corporate Bodies and Identified Staff.

> POLICY FOR SELECTION AND ASSESSMENT OF THE MANAGEMENT AND SUPERVISORY BODIES AND KEY FUNCTION HOLDERS

novobanco has in place a Policy for Selection and Assessment of the Management and Supervisory Bodies and Key Function Holders (the "Policy"), thus ensuring compliance with the regulations in force and the implementation of the required governance standards for Significant Financial Institutions. The Policy was approved by the Nomination Committee, the Executive Board of Directors, the General and Supervisory Board, and the General Meeting.

The Policy aims to ensure that the members of the Management and Supervisory Bodies and Key Function Holders (essentially the holders of the Risk, Audit, and Compliance Functions, branch general managers and other managers identified by the Bank as having risk-taking functions, currently the heads of Treasury and Marketing) meet all the fit and proper criteria to perform their functions, both at the time of appointment and throughout their mandates. This suitability to the function basically refers to the capacity to permanently ensure a sound and prudent management of the institution, which is assessed in accordance with the following requirements: i) Experience; ii) Repute; Independence; iv) Availability; and v) Collective Suitability.

In 2021, this Policy had two main changes, namely the inclusion of the heads of Treasury and Marketing as key function holders, and also the integration of a gender diversity objective.

> POLICY FOR THE SELECTION AND EVALUATION OF NOVO BANCO' STATUTORY AUDITOR AND THE CONTRACTING OF NON-PROHIBITED NON-AUDIT SERVICES.

O novobanco aprovou em 2018 reviu em 2021, a Política de Seleção e Avaliação do Revisor Oficial novobanco revised in 2021 its Policy for the Selection and Evaluation of novobanco' Statutory Auditor and for the contracting of non-prohibited non-audit services, in compliance of the applicable regulations. This Policy was approved by the Financial Affairs (Audit) Committee of the General and Supervisory Board, by the General and Supervisory Board and by novobanco's General Shareholders' Meeting.

This Policy applies to the selection, designation and assessment of the Statutory Auditor and aims to ensure that the Statutory Auditor fulfils the necessary requirements of suitability ("fit and proper"), professional experience, independence and availability, taking into account the nature, dimension and complexity of novobanco' activity and the responsibilities inherent to the specific tasks to be performed.

To achieve its purpose, the Policy defines the evaluation criteria, stipulates an obligation to monitor the Statutory Auditor's activity and establishes the internal responsibilities and the procedures that must be followed.

In addition, the Policy defines the criteria and procedures to apply in case non-audit services are contracted with the Statutory Auditor and defines the ones which are allowed and the ones which are prohibited.

5.5 CREDIT TO MEMBERS OF THE CORPORATE BODIES

At 31 December 2021 the outstanding amount of loans to persons and entities falling under the provisions of art. 85 of the General Law on Credit Institutions and Financial Companies (Regime Geral das Instituições de Crédito e Sociedades Financeiras - RGICSF is presented below:

Name	Position	Amount (in euros)
Members of the Corporate Bodies in office at the date of this Report		
Executive Board of Directors		
Luís Miguel Alves Ribeiro	Member of the Executive Board of Directors	€184 201.46
Closely related persons		€132 464.25
General and Supervisory Board		
Carla Alexandra Severino Antunes da Silva	Member of the General and Supervisory Board	
Closely related persons		€373 913.02
Entity where a member of the Executive Board of Directors holds a management position		
LOCARENT - Companhia Portuguesa Aluguer Viaturas S.A.		€121 947 176.56
novobanco dos AÇORES		€6 294 560.00
SIBS - SGPS SA		€11 955 335.73
UNICRE - Instituição Financeira de Crédito SA		€38 050 000.00

The amounts shown in the tables above concern Residential Mortgage Loans, except for those related to entities where a member of the Executive Board of Directors holds a management position, and to the person related to the member of the General and Supervisory Board, where they concern corporate loans and guarantees. These amounts also include the subscription of senior debt securities (non-preferential) issued by novobanco dos Açores.

For the disclosure purposes of Art. 109 (7) of the RGICSF, in 2021 there were no outstanding loans to direct or indirect holders of qualified holdings. For the purposes of the same article, outstanding loans to persons related therewith were as follows:

Name	Type of Credit	Amounts (in euros)
Entities controlled directly or indirectly by a person holding directly or indirectly a stake in the credit institution		
Esmalglass Portugal Productos Cerâmicos, S.A.	Garantia Bancária	1 500.00 €

5.6 REMUNERATION OF THE MEMBERS OF THE CORPORATE BODIES AND IDENTIFIED STAFF

According to several regulatory obligations, among others, Bank of Portugal Notice 3/2020 and Regulation (EU) No 575/2013 of the European Parliament and of the Council, novobanco shall disclose the Remuneration of Members of Corporate Bodies and Identified Staff.

i) Executive Board of Directors

		Total 2021		Fixed Remuneration		
	Role	Total Paid and Deferred	Paid	Salary	Other post-EBD benefits	Deferred
Executive Board of Directors		**2 039 865**	**1 988 581**	**1 986 216**	**2 365**	**51 284**
António Manuel Palma Ramalho	CEO	410 000	371 858	371 858	0	38 142
Rui Miguel Dias Ribeiro Fontes	Member	298 683	298 683	297 500	1 183	0
Luis Miguel Alves Ribeiro	Member	298 683	298 683	297 500	1 183	0
Luisa Marta Santos Soares da Silva Amaro de Matos	Member	297 500	297 500	297 500	0	0
Mark Georges Bourke *	Member	385 000	371 858	371 858	0	13 142
Andres Baltar Garcia	Member	350 000	350 000	350 000	0	0
General and Supervisory Board		**1 100 000**	**1 046 858**	**1 046 858**	**0**	**53 142**
Byron James Macbean Haynes	Chairman	425 000	371 858	371 858	0	53 142
Karl - Gerhard Eick	Vice-Chairman	300 000	300 000	300 000	0	0
Benjamin Friedrich Dickgiesser	Member	0	0	0	0	0
Kambiz Nourbakhsh	Member	0	0	0	0	0
Donald John Quintin	Member	0	0	0	0	0
John Ryan Herbert	Member	95 000	95 000	95 000	0	0
Robert Alan Sherman	Member	95 000	95 000	95 000	0	0
Mark Andrew Coker	Member	0	0	0	0	0
Carla Alexandra Severino Antunes da Silva	Member	75 000	75 000	75 000	0	0
Willian Henry Newton**	Member	110 000	110 000	110 000	0	0

(*) In addition, a rental allowance of €51,000 was paid during the year. After consultation with the Monitoring Trustee, who has liaised with DGCOMP, they confirmed a rent allowance of a reasonable amount would not be considered as a component of the "total annual remuneration" under Remuneration Limits imposed by DGCOMP.
(**) GSB member since May 1,st 2021. In the period from January to April, he received €55,000 under a consultancy agreement.

In 2021, there were no amounts paid to the members of the Corporate Bodies of novobanco by other group companies.

For Year 2021 regarding Variable Remuneration, there was a conditional award, subject to the verification of several conditions, of 1.600 thousand euros to the members of the Executive Board of Directors. This award was based on individual and collective performance of each member, which was assessed by the Remuneration Committee. This attribution did not create vested rights, no payment to the members was made and is subject to verification of condition defined in the Remuneration Policy.

According to the Remuneration Policy, Variable Remuneration award is subject to the maximum limit of 100% of the annual Fixed Remuneration of each member, 50% of which is attributed in the form of cash and 50% in the form of Remuneration Units. The value of the Remuneration Units at the date of the attribution is 1 (one) Euro and their value is then reassessed, by the Remuneration Committee, at the time of payment. According to the "Regulation of Remuneration Units", at the time of payment, the value of the Remuneration Units can only be adjusted downwards when compared to that defined at the time of award.

Additionally, this award was fully deferred and there shall be no payments until after the end of the Restructuring Period. This Variable Remuneration does not constitute an acquired right until after the end of the Restructuring Period and will be subject to the risk adjustment mechanisms provided for in the Remuneration Policy, namely, Malus and/or Claw back.

The 2021 Variable Remuneration attributed to the members of the Executive Board of Directors is subject to future adjustments. In particular, there is no vested right or certainty as to what the final Variable Remuneration amount will be attributed or when payments will be made.

> Other benefits and compensation and non-cash benefits

Nothing to report.

> Compensation paid or due to former members of the Executive Board of Directors in relation to early contract termination in the reporting year

Nothing to report.

> Plans for the attribution of shares or stock options

Nothing to report.

ii) Identified Staff

Following its annual self-assessment procedure as stated in the Remuneration Policy, the Identified Staff was updated by the Executive Board of Directors and reviewed and approved by the Remuneration Committee. A group of 47 employees was classified as Identified Staff and the table below show their Fixed and Variable Award Remuneration for 2021.

		Total 2021 (**)		Fixed Remuneration		"Variable Remuneration awarded 2021 (*)
	# Employees	Total Paid and awarded	Paid	Salary	Other post-employment benefits	
Identified Staff	**47**	**9 205 431**	**6 255 431**	**6 224 442**	**30 989**	**2 950 000**
Commercial	8	1 983 268	1 218 751	1 211 809	6 942	764 517
Control Functions	5	932 809	612 602	611 494	1 108	320 207
Suport	34	6 289 354	4 424 078	4 401 139	22 939	1 865 276

(*) The 2021 award will be deferred and paid out in subsequent years in accordance with Remuneration Policy. Includes sign-on bonus of 170.000€ paid to two new signings.
(**) In 2021 1/3 of the Identified Staff Bonus award of 2018 and 1/3 of Bonus award 2019 and 1/3 of the award of 2020 have been paid (1.604.467€).

5.7 SECURITIES HELD BY MEMBERS OF THE MANAGEMENT AND SUPERVISORY BODIES

As at 31 December 2021, and with regard to fiscal year of 2021, the members of the management and supervisory bodies of novobanco did not hold any securities issued by novobanco or by companies in a control or group relationship with novobanco.

Additionally, no acquisitions, disposals or transmissions of securities issued by novobanco or by companies in a control or group relationship with novobanco were carried out in this period by the members of the management and supervisory bodies of novobanco.

5.8 NON-MATERIAL INDIRECT INVESTMENT IN NOVO BANCO

All current members of the Executive Board of Directors and certain members of the General and Supervisory Board acquired, using their own resources, holdings in an indirect investment structure in novobanco, which had been set up (and is controlled) by LSF Nani GP, LLP, which owns indirectly a 75% interest in novobanco. This indirect investment represents a shareholding of substantially less than 1% in novobanco and has no financial impact on the Bank, or in the exercise of the functions, suitability and independence of the aforesaid members, taking into account the reduced weight of the investment on the share capital's percentage, and also for each individual. Non-material indirect investments in novobanco have been disclosed in previous novobanco's annual financial statements and were notified to the relevant supervisory authorities and internal control bodies. In addition, certain staff members also had the opportunity to make a non-material indirect investment in novobanco using their own resources, under the same terms as the above.

6.0
CONSOLIDATED FINANCIAL STATEMENTS AND FINAL NOTES

6.1 Consolidated Financial Statements
6.2 Separate Financial Statements
6.3 Final Notes
6.4 Note of Recognition

Sandra Catarino
Risk Department - Area Manager

6.1 CONSOLIDATED FINANCIAL STATEMENTS

thousands of euros

CONSOLIDATED INCOME STATEMENT AS AT 31 DECEMBER 2021 AND 2020	31.12.2021	31.12.2020
Interest Income	740 459	743 707
Interest Expenses	(167 065)	(188 573)
Net Interest Income	**573 394**	**555 134**
Dividend income	11 096	16 478
Fees and commissions income	325 511	313 823
Fees and commissions expenses	(47 357)	(47 305)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	(5 123)	88 472
Gains or losses on financial assets and liabilities held for trading	50 896	(91 611)
Gains or losses on financial assets mandatorily at fair value through profit or loss	46 697	(364 000)
Gains or losses on financial assets and liabilities designated at fair value through profit and loss	21	-
Gains or losses from hedge accounting	14 195	(11 641)
Exchange differences	10 805	(2 414)
Gains or losses on derecognition of non-financial assets	7 551	(3 416)
Other operating income	163 875	120 732
Other operating expenses	(181 604)	(230 294)
Operating Income	**969 957**	**343 958**
Administrative expenses	(374 359)	(398 769)
Staff expenses	(233 261)	(245 606)
Other administrative expenses	(141 098)	(153 163)
Cash contributions to resolution funds and deposit guarantee schemes	(40 535)	(35 048)
Depreciation	(34 004)	(33 072)
Provisions or reversal of provisions	(127 835)	(186 423)
Commitments and guarantees given	9 840	(22 116)
Other provisions	(137 675)	(164 307)
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(198 903)	(755 070)
Impairment or reversal of impairment of investment in subsidiaries, joint ventures and associates	315	(4 192)
Impairment or reversal of impairment on non-financial assets	(26 314)	(245 778)
Share of the profit or loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	3 794	9 430
Profit or loss before tax from continuing operations	**172 116**	**(1 304 964)**
Tax expense or income related to profit or loss from continuing operations	15 186	(1 082)
Current tax	(12 737)	8 639
Deferred tax	27 923	(9 721)
Profit or loss after tax from continuing operations	**187 302**	**(1 306 046)**
Profit or loss from discontinued operations	4 887	(33 345)
Profit or loss for the period	**192 189**	**(1 339 391)**
Attributable to Shareholders of the parent	**184 504**	**(1 329 317)**
Attributable to non-controlling interests	7 685	(10 074)
	192 189	**(1 339 391)**

The Certificated Accountant

Executive Board of Directors

thousands of euros

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2021 AND 2020	31.12.2021	31.12.2020
ASSETS		
Cash, cash balances at central banks and other demand deposits	5 871 538	2 695 459
Financial assets held for trading	377 664	655 273
Financial assets mandatorily at fair value through profit or loss	799 592	960 962
Financial assets at fair value through other comprehensive income	7 220 996	7 907 587
Financial assets at amortised cost	26 039 902	25 898 046
Securities	2 338 697	2 229 947
Loans and advances to banks	50 466	113 795
Loans and advances to customers	23 650 739	23 554 304
Derivatives – Hedge accounting	19 639	12 972
Fair value changes of the hedged items in portfolio hedge of interest rate risk	30 661	63 859
Investments in subsidiaries, joint ventures and associates	94 590	93 630
Tangible assets	864 132	779 657
Tangible fixed assets	238 945	187 052
Investment properties	625 187	592 605
Intangible assets	67 986	48 833
Tax assets	779 892	775 498
Current Tax Assets	35 653	610
Deferred Tax Assets	744 239	774 888
Other assets	2 442 550	2 944 292
Non-current assets and disposal groups classified as held for sale	9 373	1 559 518
TOTAL ASSETS	**44 618 515**	**44 395 586**
LIABILITIES		
Financial liabilities held for trading	306 054	554 791
Financial liabilities measured at amortised cost	-	-
Deposits from central banks and other banks	40 215 994	37 808 767
(of which: Operations with repurchase agreement)	10 745 155	10 102 896
Due to customers	27 582 093	26 322 060
Debt securities issued, Subordinated debt and liabilities associated to transferred assets	1 514 153	1 017 928
Other financial liabilities	374 593	365 883
Derivatives – Hedge accounting	44 460	72 543
Provisions	442 834	384 382
Tax liabilities	15 297	14 324
Current Tax liabilities	12 262	9 203
Deferred Tax liabilities	3 035	5 121
Other liabilities	443 437	417 762
Liabilities included in disposal groups classified as held for sale	968	1 996 382
TOTAL LIABILITIES	**41 469 044**	**41 248 951**
EQUITY		
Capital	6 054 907	5 900 000
Accumulated other comprehensive income	(1 045 489)	(823 420)
Retained earnings	(8 576 860)	(7 202 828)
Other reserves	6 501 374	6 570 154
Profit or loss attributable to Shareholders of the parent	184 504	(1 329 317)
Minority interests (Non-controlling interests)	31 035	32 046
TOTAL EQUITY	**3 149 471**	**3 146 635**
TOTAL LIABILITIES AND EQUITY	**44 618 515**	**44 395 586**

The Certificated Accountant

Executive Board of Directors

6.2 SEPARATE FINANCIAL STATEMENTS

thousands of euros

INCOME STATEMENT AS AT 31 DECEMBER 2021 AND 2020	31.12.2021	31.12.2020
Interest Income	748 592	760 111
Interest Expenses	(167 508)	(192 112)
Net Interest Income	**581 084**	**567 999**
Dividend income	18 400	16 928
Fees and commissions income	287 013	279 878
Fees and commissions expenses	(40 296)	(41 438)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	(7 234)	86 183
Gains or losses on financial assets and liabilities held for trading	51 222	(91 208)
Gains or losses on financial assets mandatorily at fair value through profit or loss	42 734	(521 059)
Gains or losses on financial assets and liabilities designated at fair value through profit and loss	-	-
Gains or losses from hedge accounting Exchange differences	14 896	(12 053)
Gains or losses on derecognition of non-financial assets	10 653	(2 000)
Other operating income	(4 582)	2 272
Other operating expenses	79 753	87 599
Outras despesas operacionais	(141 545)	(89 879)
Operating Income	**892 098**	**283 222**
Administrative expenses	(346 975)	(367 635)
Staff expenses	(214 994)	(223 604)
Other administrative expenses	(131 981)	(144 031)
Cash contributions to resolution funds and deposit guarantee schemes	(40 172)	(34 766)
Depreciation	(33 799)	(35 033)
Provisions or reversal of provisions	(111 770)	(187 839)
Commitments and guarantees given	9 900	(21 595)
Other provisions	(121 670)	(166 244)
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(196 230)	(750 975)
Impairment or reversal of impairment of investment in subsidiaries, joint ventures and associates	49 691	(41 285)
Impairment or reversal of impairment on non-financial assets	(12 069)	(215 397)
Profit or loss before tax from continuing operations	**200 774**	**(1 349 708)**
Tax expense or income related to profit or loss from continuing operations	24 043	4 216
Current tax	(4 249)	13 400
Deferred tax	28 292	(9 184)
Profit or loss after tax from continuing operations	**224 817**	**(1 345 492)**
Profit or loss from discontinued operations	1 091	(28 754)
Attributable to Shareholders of the parent	**225 908**	**(1 374 246)**

The Certificated Accountant

Executive Board of Directors

thousands of euros

BALANCE SHEET AS AT 31 DECEMBER 2021 AND 2020	31.12.2021	31.12.2020
ASSETS		
Cash, cash balances at central banks and other demand deposits	5 674 461	2 524 868
Financial assets held for trading	377 709	655 327
Financial assets mandatorily at fair value through profit or loss	2 250 308	2 445 605
Financial assets at fair value through other comprehensive income	7 133 508	7 813 584
Financial assets at amortised cost	24 977 300	24 804 483
Securities	2 893 829	2 873 753
Loans and advances to banks	186 089	245 472
Loans and advances to customers	21 897 382	21 685 258
Derivatives – Hedge accounting	20 150	13 606
Fair value changes of the hedged items in portfolio hedge of interest rate risk	28 787	60 976
Investments in subsidiaries, joint ventures and associates	241 066	189 924
Tangible assets	231 419	188 968
Tangible fixed assets	231 419	188 968
Intangible assets	67 515	48 331
Tax assets	776 769	771 854
Current Tax Assets	35 448	-
Deferred Tax Assets	741 321	771 854
Other assets	2 555 852	2 956 010
Non-current assets and disposal groups classified as held for sale	6 601	1 568 912
TOTAL ASSETS	**44 341 445**	**44 042 448**
LIABILITIES		
Financial liabilities held for trading	305 512	554 343
Financial liabilities measured at amortised cost	40 346 362	37 895 984
Deposits from central banks and other banks	11 497 829	10 778 468
(dos quais: Operações com acordo de recompra)	1 529 847	1 625 724
Due to customers	26 997 858	25 778 507
Debt securities issued, Subordinated debt and liabilities associated to transferred assets	1 479 066	974 996
Other financial liabilities	371 609	364 013
Derivatives – Hedge accounting	44 460	72 543
Provisions	478 170	438 572
Tax liabilities	4 703	5 536
Current Tax liabilities	4 703	5 536
Other liabilities	362 836	314 611
Liabilities included in disposal groups classified as held for sale	-	2 007 770
TOTAL DO PASSIVO	**41 542 043**	**41 289 359**
EQUITY		
Capital	6 054 907	5 900 000
Accumulated other comprehensive income	(968 987)	(749 259)
Retained earnings	(8 576 860)	(7 202 828)
Other reserves	6 064 434	6 179 422
Profit or loss attributable to Shareholders of the parent	225 908	(1 374 246)
TOTAL EQUITY	**2 799 402**	**2 753 089**
TOTAL LIABILITIES AND EQUITY	**44 341 445**	**44 042 448**

The Certificated Accountant

Executive Board of Directors

6.3 FINAL NOTES

6.3.1 Declaration of Conformity with the Financial Information Reported

In accordance with Article 246-1-c) of the Portuguese Securities Code ("Código dos Valores Mobiliários"), the members of the Executive Board of Directors of Novo Banco, S.A., named below, state that:

i. the separate and consolidated financial statements of novobanco, for the year ended on 31 December 2021 were prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted in the European Union;

ii. to the best of their knowledge the financial statements referred to in (i) provide a true and fair view of the assets and liabilities, equity and earnings of novobanco and of novobanco Group, in accordance with the referred standards;

iii. the management report describes accurately the evolution of the businesses, the performance and the financial position of novobanco and of novobanco Group in 2021 and includes a description of the main risks and uncertainties faced.

The management report and the individual and consolidated financial statements have been approved at the meeting of the Executive Board of Directors held on 2 March 2022.

6.3.2 Proposal for the distribution of novobanco results

Under the terms of Article 66 (5-f) and for the purposes of Article 376 (1-b) of the Portuguese Companies Code, and pursuant to Article 29 of the bank's Articles of Association, the Executive Board of Directors of novobanco proposes, for approval by the General Meeting, that the net profit reported in the separate accounts for financial year 2021, in the amount of €225 908 388.79 be allocated €22 590 838.87 to the Legal Reserve, pursuant to article 97 of the General Regime for Credit Institutions and Financial Companies, and €203 317 549.92 to the "Other Reserves and Retained Earnings" on the Balance Sheet, to cover losses incurred in previous years.

6.4 NOTE OF RECOGNITION

The General and Supervisory Board and the Executive Board of Directors hereby express their recognition for the loyalty, trust and involvement with the bank of its clients and employees, as well as for the collaboration of the Governmental, Supervision and Resolution Authorities and the European Commission.

Lisbon, 8 March 2021

The Executive Board of Directors

António Manuel Palma Ramalho

Luísa M. S. Soares da Silva Amaro de Matos

Mark George Bourke

Luís Miguel Alves Ribeiro

Rui Miguel Dias Ribeiro Fontes

Andrés Baltar

7.0
ALTERNATIVE PERFORMANCE MEASURES

Daniela Almeida
North Corporate Department - Business Client Manager

The European Securities and Markets Authority (ESMA) issued on 5 October 2015 a set of guidelines on the disclosure of Alternative Performance Measures (APM) by issuers of securities (ESMA/2015/1415), of compulsory application from 03 July 2016.

The novobanco Group uses a set of indicators in the analysis of its financial performance that can be classified as Alternative Performance Measures, in accordance with the referred ESMA guidelines.

In compliance with the ESMA guidelines, we present hereunder (i) the reconciliation of the Consolidated Income Statement and (ii) the Alternative Performance Measures:

I – Reconciliation of the Income Statement

Reconciliation between the Official Consolidated Income Statement and the Management Consolidated Income Statement used by novobanco's management as a work tool in the analysis of the Group's performance:

euro thousands

OFFICIAL INCOME STATEMENT		Net Interest Income	Fees and Commissions	Market Results	Other Operating Results	Staff Costs	General and Administrative Costs	Depreciation	Restructuring funds - independent valuation	Credit Impairment	Securities Impairment	Other Assets and Contingencies Provisions	Taxes	Special Tax on Banks
		573 394	**282 525**	**75 874**	**40 397**	**(233 261)**	**(141 098)**	**(34 004)**	**-**	**(149 375)**	**(47 779)**	**(155 583)**	**15 186**	**(34 087)**
Interest Income	740 459	740 459												
Interest Expenses	(167 065)	(167 065)												
Net Interest Income	**573 394**													
Dividend income	11 096			11 096										
Fee and comission income	325 511		325 511											
Fee and comission expenses	(47 357)		(47 357)											
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	(5 123)			14 246	(19 369)									
Gains or losses on financial assets and liabilities held for trading	50 896			50 896										
Gains or losses on financial assets mandatorily at fair value through profit or loss	46 697			46 697										
Gains or losses on financial assets and liabilities designated at fair value through profit and loss	21			21										
Gains or losses from hedge accounting	14 195			14 195										
Exchange differences	10 805			10 805										
Gains or losses on derecognition of non-financial assets	7 551				7 551									
Other operating income	163 875		4 371	2 738	156 766									
Other operating expenses	(181 604)			(74 820)	(72 697)									(34 087)
Operating Income	**969 957**													
Administrative expenses														
Staff expenses	(233 261)					(233 261)								
Other administrative expenses	(141 098)						(141 098)							
Contributions to resolution funds and deposit guarantee schemes	(40 535)				(40 535)									
Depreciation	(34 004)							(34 004)						
Provisions or reversal of provisions														
Commitments and guarantees given	9 840											9 840		
Other provisions	(137 675)											(137 675)		
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	(198 903)									(149 375)	(47 779)	(1 749)		
Impairment or reversal of impairment of investment in subsidiaries, joint ventures and associates	315											315		
Impairment or reversal of impairment on non-financial assets	(26 314)											(26 314)		
Share of the profit or loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	3 794				3 794									
Profit or loss before tax from continuing operations	**172 116**													
Tax expense or income related to profit or loss from continuing operations														
Current tax	(12 737)												(12 737)	
Deferred tax	27 923												27 923	
Profit or loss after tax from continuing operations	187 302													
Profit or loss from discontinued operations	4 887				4 887									
Profit or loss for the period	**192 189**													
Attributable to Shareholders of the parent	184 504													
Attributable to non-controlling interests	7 685													
	192 189													

II – Alternative performance measures

Information on the Alternative Performance Measures (definition, calculation method and scope).

ALTERNATIVE PERFORMANCE INDICATORS			
Designation	**Definition/Utility**	**Calculation Basis**	**Conciliation with the Financial Statements**
Fees and Commissions	Indicator of results of financial activity directly related to services provided to clients Historical financial performance indicator	Fee and commission income less fee and commission expenses	(DR): Fee and commission income and Fee and commission expenses
Commercial banking income	Indicator of the results of commercial activity most directly related to customers Historical financial performance indicator	Financial margin + Customer services	
Capital markets results	Indicator of results of activity in the financial markets Historical financial performance indicator indicator	Results from trading hedging operations, assets at fair value through other comprehensive income and at amortized cost	(DR): Dividend income, gains or losses on the derecognition of financial assets and liabilities not measured at fair value through profit or loss, gains or losses on financial assets and liabilities held for trading, gains or losses on financial assets that must be accounted for at fair value through profit or loss, gains or losses on financial assets and liabilities accounted for at fair value through profit or loss, gains or losses from hedge accounting and exchange differences
Other operating results	Indicator of other diverse results, not directly related to activity with customers and markets Historical financial performance	Gains or losses on the derecognition of non-financial assets + Other operating income + Other operating expenses + Proportion of profits or losses from investments in subsidiaries and joint ventures and associates accounted for using the equity method	(DR): Gains or losses on the derecognition of non-financial assets, other operating income, other operating expenses, proportion of profits or losses from investments in subsidiaries and joint ventures and associates accounted for using the equivalence method
Banking Income	Financial activity results indicator Historical financial performance indicator	Net interest income + Fees and commissions + Capital markets results + Other operating results	
Operating costs	Indicator of structural costs that support commercial activity and whose analysis allows to assess the trajectory of progression of costs Indicator of historical financial performance	Personnel expenses + Other administrative expenses + Depreciation	(DR): Personnel expenses, Other administrative expenses and Depreciation
Operational result	Indicator of results of financial activity less costs and before impairment. Measures the extent to which the income generated covers / exceeds operating costs Historical financial performance indicator	Banking income - Operating costs	
Provisions, net of replacement / Impairments	Indicator of net reinforcements of impairments made in the year Historical financial performance indicator	Provisions or reversal of provisions + Impairment or reversal of financial assets not measured at fair value through profit or loss + Impairment or reversal of impairment of investments in subsidiaries, joint ventures and associates + Impairment or reversal of impairment of non-financial assets	(DR): Provisions or reversal of provisions, Impairment or reversal of impairment of financial assets not measured at fair value through profit or loss, Impairment or reversal of impairment of investments in subsidiaries, joint ventures and associates and Impairment or reversal of impairment of non-assets financial

BALANCE SHEET/LIQUIDITY			
Designation	**Definition/Utility**	**Calculation Basis**	**Conciliation with the Financial Statements**
Assets eligible for rediscount transactions with the ECB	*Trading financial securities or other types of assets, such as non-marketable assets or cash, accepted as collateral by the ECB in financing operations Indicator of historical financial performance*	n.a.	n.a.
Securities portfolio	*Indicator of the size of funds invested in trading assets, at fair value through profit or loss, at fair value through profit or loss mandatory, at fair value through other comprehensive income and at amortized cost Historical financial performance indicator*	Securities (bonds, shares and other variable income securities) recorded in trading portfolios, at fair value through profit or loss, at fair value through mandatory income, at fair value through equity and amortized cost.	(BAL): Securities held for trading and Securities portfolio
Customer deposits Instruction No 16/2004 of Banco de Portugal	*Indicator of the asset's financing capacity Historical financial performance indicator*	Set of amounts entered in the following general ledges accounting items: [#400 - #34120 + #52020 + #53100]	(BAL): Customer resources
Net financing from the ECB	*Indicator that reflects the net amount that was obtained from the ECB to finance the activity Historical financial performance indicator*	Difference between the amount of financing obtained from the ECB and investments in the ECB	(BAL): Applications at the ECB and Resources from the ECB
Customer funds	*Indicator of the asset's financing capacity Historical financial performance indicator*	Deposits + Other customer funds + Debt securities placed on customers	(BAL): Customer funds, Debt securities issued, subordinated liabilities and Liabilities associated with transferred assets
Off-balance funds	*Indicator of off-balance sheet customer funds Historical financial performance indicator*	Off-balance sheet resources managed by Group companies, which include real estate and investment funds, pension funds, banking insurance, portfolio management and discretionary management	
Total customer funds	*Indicator of customer resources registered on the balance sheet and off balance sheet Historical financial performance indicator*	Deposits + Other customer resources + Issued bonds + Subordinated liabilities + Disintermediation resources	(BAL): Customer resources, Liabilities represented by securities, subordinated liabilities and Liabilities associated with transferred assets
Commercial gap	*Indicator that measures the need / excess of financing in absolute value of the commercial area Historical financial performance indicator*	Difference between customer deposits and net credit	(BAL): Net customer loans and customer deposits
Liquidity gap	*Indicator that allows assessing the need / excess liquidity accumulated up to 1 year, in each cumulative scale of residual maturity. Historical financial performance indicator*	Difference between [(Net assets - volatile liabilities)]	
Loans to Deposit Ratio Instruction No 16/2004 of Banco de Portugal	*Indicator of the relationship between the financing of the activity and the funds raised from customers Historical financial performance indicator*	Ratio between [(total credit - accumulated impairment for credit) and deposits customer]	(BAL): Net customer loans and customer deposits

ASSET QUALITY AND COVERAGE RATIOS			
Designation	**Definition/Utility**	**Calculation Basis**	**Conciliation with the Financial Statements**
Overdue loans ratio	Loans quality indicator, showing the proportion of the gross loan portfolio that is in default Historical financial performance indicator	Ratio between overdue loans and total loans	(BAL): Overdue loans, that is, loans with installments of capital and interest in default and loans to customers, gross
Ratio of loans overdue for more than 90 days	Loans quality indicator, reflects the proportion of the gross loan portfolio that has been in default for more than 90 days. Historical financial performance indicator.	Ratio between loans overdue for more than 90 days and total loans	(BAL): Loans overdue for more than 90 days, that is, loans with installments of capital and interest in default for more than 90 days and loans to customers, gross
Non-performing loans ratio	Loans portfolio quality indicator, reflects the proportion of the gross loans portfolio including cash and deposits with credit institutions that are in a non-performing situation. Historical financial performance indicator.	Ratio between the total balance of loans agreements with customers and cash equivalents and investments in credit institutions identified as: (i) being in default (internal definition in line with Article 178 of the Capital Requirements Regulation, that is, contracts with higher material defaults) 90 days and contracts identified as unlikely to pay, according to qualitative criteria; and (ii) having specific impairment and total loans	(BAL). Loans identified as non-productive loans and Gross customer loans
Forborne ratio Instruction No 32/2013 of Banco de Portugal	Loans quality indicator, reflects the proportion of the gross loan portfolio that was restructured. Historical financial performance indicator.	Ratio between forborne and total loans	(BAL). Loans identified as restructured due to financial difficulties of the customer and loans to customers gross
Overdue loans coverage	Indicator of the ability to absorb potential losses related to loans default Historical financial performance indicator.	Ratio between balance sheet impairments for loans to customers and the amount of overdue loans	(BAL): Provisions for loans and overdue loans to customers
Coverage of loans overdue for more than 90 days	Indicator of the ability to absorb potential losses related to loans default for more than 90 days. Historical financial performance indicator.	Ratio between balance sheet impairments for loans to customers and loans overdue for more than 90 days	(BAL): Provisions for loans and loans to customers overdue by more than 90 days
Non-performing loans coverage	Indicator of the capacity to absorb potential losses related to non-performing loans default. Historical financial performance indicator.	Ratio between balance sheet impairments for loans to customers and non-performing loans	(BAL): Provisions for loans and non-performing loans
Coverage of loans to customers	Indicator of the ability to absorb potential losses related to the customer loan portfolio. Historical financial performance indicator.	Ratio between balance sheet loan impairments and gross loans to customers	(BAL): Provisions for loans and gross loans to customers
Cost of Risk	Measure of the cost recognised in the year to cover the risk defaultin the customer loans book -historical financial performance measure	Ratio between impairment charges recorded in the period for loans risk and the balance of loans to customers gross	(DR): Reinforcement of provisions for loans, in the year (BAL): Gross customer loans

EFFICIENCY AND PROFITABILITY RATIO			
Designation	**Definition/Utility**	**Calculation Basis**	**Conciliation with the Financial Statements**
Efficiency I Instruction No 16/2004 of Banco de Portugal	It expresses the proportion of income necessary to cover the staff costs incurred. The lower the value of the indicator, the higher the level of efficiency of the organization's human resources. Historical financial performance indicator.	Ratio between staff expenses and banking income	(DR): Staff expenses
Efficiency II Instruction No 16/2004 of Banco de Portugal	Expresses the proportion of income necessary to cover operating costs incurred. The lower the value of the indicator, the greater the level of efficiency of the organization. Historical income financial performance indicator.	Ratio between [administrative expenses and depreciation] and banking income	(DR): Operating costs include Staff expenses, Other administrative expenses and Depreciation
Cost to Income	It expresses the proportion of income necessary to face the operating costs incurred and allows to measure the progression of efficiency levels. The lower the value of the indicator, the greater the level of efficiency of the organization. Historical financial performance indicator.	Ratio between operating costs and banking income	
Profitability Instrucao nº16/2004 do Banco de Portugal	Expresses the banking income (in%) generated by the asset, in the period and provides an analysis of the capacity to generate income per unit of assets used. Indicator of historical financial performance.	Ratio between banking income and average net assets	(BAL): Active; the calculation of the average net asset includes, in addition to the values at the ends of the period under analysis, the values recorded in each of the months in the interval considered.
Return on average net assets Instruction No 16/2004 of Banco de Portugal	Expresses the income (in%) generated by the asset, in the period and provides an analysis of the capacity to generate results per unit of assets used. Indicator of historical financial performance.	Ratio between profits or losses of continuing operations before taxes and average net assets.	(DR): Profit or loss from continuing operations before taxes (BAL): Assets; the calculation of the average net asset includes, in addition to the values at the ends of the period under analysis, the values recorded in each of the months in the interval considered
Return on average equity Instruction No 16/2004 of Banco de Portugal	Expresses the income (in%) generated by equity in the period and provides information on the efficiency with which capital is used to generate results. Indicator of historical financial performance.	Ratio between profits or losses of continuing operations before taxes and average equity.	(DR): Profit or loss from continuing operations before taxes (BAL): Equity; the calculation of average equity includes, in addition to the values at the ends of the period under analysis, the values recorded in each of the months in the interval considered.

Sustainability Report
2021

novobanco

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1.0 HIGHLIGHTS

1.1 ESG Performance in 2021

Ricardo Manuel Santos Freire
Retail South Department - Customers Assistant

Maria Inês Ferreira
Retail North Department - Senior Customer Assistant

1.1 ESG PERFORMANCE IN 2021

2021 was, worldwide and once again, a more challenging year than anticipated. In this context, the group was especially aware and committed to making a positive impact on the communities it serves and to supporting its clients to overcome their challenges and thrive, contributing to lessen the adverse socio-economic impacts of the Covid-19 pandemic that carried over into 2021, and to promote long-term sustainable and just economic and social development.

But 2021 was also the year in which we redesigned our medium and long-term ESG strategy, integrating even more deeply sustainability and environmental, social and governance issues in the way we work and do business, with the ambition of reducing the direct environmental impact of our business and supporting our clients in their sustainability journeys and in the transition to a low-carbon economy.

This report aims to share novobanco Group's vision and agenda regarding the main sustainability challenges in the financial sector.

ENVIRONMENT

18.5%
REDUCTION OF CO_2 EMISSIONS - SCOPES 1, 2 AND 3

26.5%
REDUCTION OF PHOTOCOPY PAPER CONSUMPTION

156.8 thousand
CARBON NEUTRAL ACCOUNTS

11.6%
REDUCTION OF WATER CONSUMPTION

722.2 thousand
ACTIVE DIGITAL CLIENTS

SOCIAL AND FINANCIAL WELL-BEING

€1.5 mn
IN LOANS TO SMALL AND MEDIUM-SIZED COMPANIES

70%
OF EMPLOYEES MOTIVATED AND AVAILABLE TO EXCEED WHAT IS EXPECTED OF THEM

311 branches
OF WHICH **51** IN LOW POPULATION DENSITY MUNICIPALITIES

10,9 thousand
MINIMUM BANKING SERVICE ACCOUNTS

1,6 mn
INVESTED IN THE COMMUNITY

RESPONSIBLE BANKING

36.2%
OF WOMEN IN MANAGEMENT POSITIONS

€388.7mn
IN ECONOMIC VALUE DISTRIBUTED

52%
OF SUPPLIERS WITH ESG SCORING

58.6 thousand hours
OF ESG TRAINING

14.2 thousand hours
OF TRAINING IN PREVENTION OF MONEY LAUNDERING AND TERRORIST FINANCING

2.0 SUSTAINABILITY STRATEGY

2.1 Our material issues
2.2 Risks and opportunities arising from climate change
2.3 Our ESG strategy
2.4 Our commitments
2.5 Our partners

Hernâni Oliveira
Rating Department - Senior Risk Analyst

We are aware of the important role of the financial sector in the current context where combating climate change is an imperative and sustainability issues dominate the world agenda. This is a defining moment, and one that implies the adoption of a structured, ambitious and effective approach to the environmental and social challenges of the transition to a sustainable and low carbon economy.

Our strategy and approach tackle environmental and social issues not only as risks but also as opportunities that we want to see intrinsically embedded into the business strategy, ensuring the evolution of the governance and risk management model and a culture of transparency in the disclosure of information. We listen to our stakeholders and define our priorities with them.

Shaping the future together.

2.1 OUR MATERIAL ISSUES

The definition of our business strategy is intrinsically linked to a collaborative and proactive approach to all our stakeholders. To build and nurture a continuous relationship with our stakeholders and integrate their concerns and expectations, novobanco has in place a wide range of communication channels.

EMPLOYEES

- Request for in-person feedback via questionnaires and meetings;
- Intranet (Somos novobanco, Yammer and Human Resources Portal)
- Thematics Mailboxes Email (including CEO Office and "Ask the Chairman" address")
- HCD manager for active and retired employees
- Human Resources Business Partner
- Executive leadership visits to the commercial network
- Whistleblower line
- Workshops and Lectures
- Annual Meeting and other thematic meetings, workshops, clarification sessions and webinars
- Workers Committee, Union Secretariat and Information and Consultation Procedure

CLIENTS

- Request for by phone, online and in person;
- Formal system for filing complaints;
- Branch Network, Corporate Centres and Regional Divisions;
- Social networks (novobanco Cultura, novobanco Facebook and Linkedin)
- Events, such as novobanco Summit

REGULATORS

- Provision of mandatory and voluntary information
- Request for feedback by phone, online and in person.
- Investor Relations team
- Regular meetings with investors
- Quarterly results presentation Investors website

SUPPLIERS

Contacts established through a specific website (Grupo novobanco Supplier Portal), coordinating the exchange of information via e-mail, telephone and in person.

MEDIA

- Information provided in-person, by phone and online;
- Press conferences
- Quarterly results presentation
- Sharing of specialized knowledge through social networks and media (radio, newspapers, televisions).

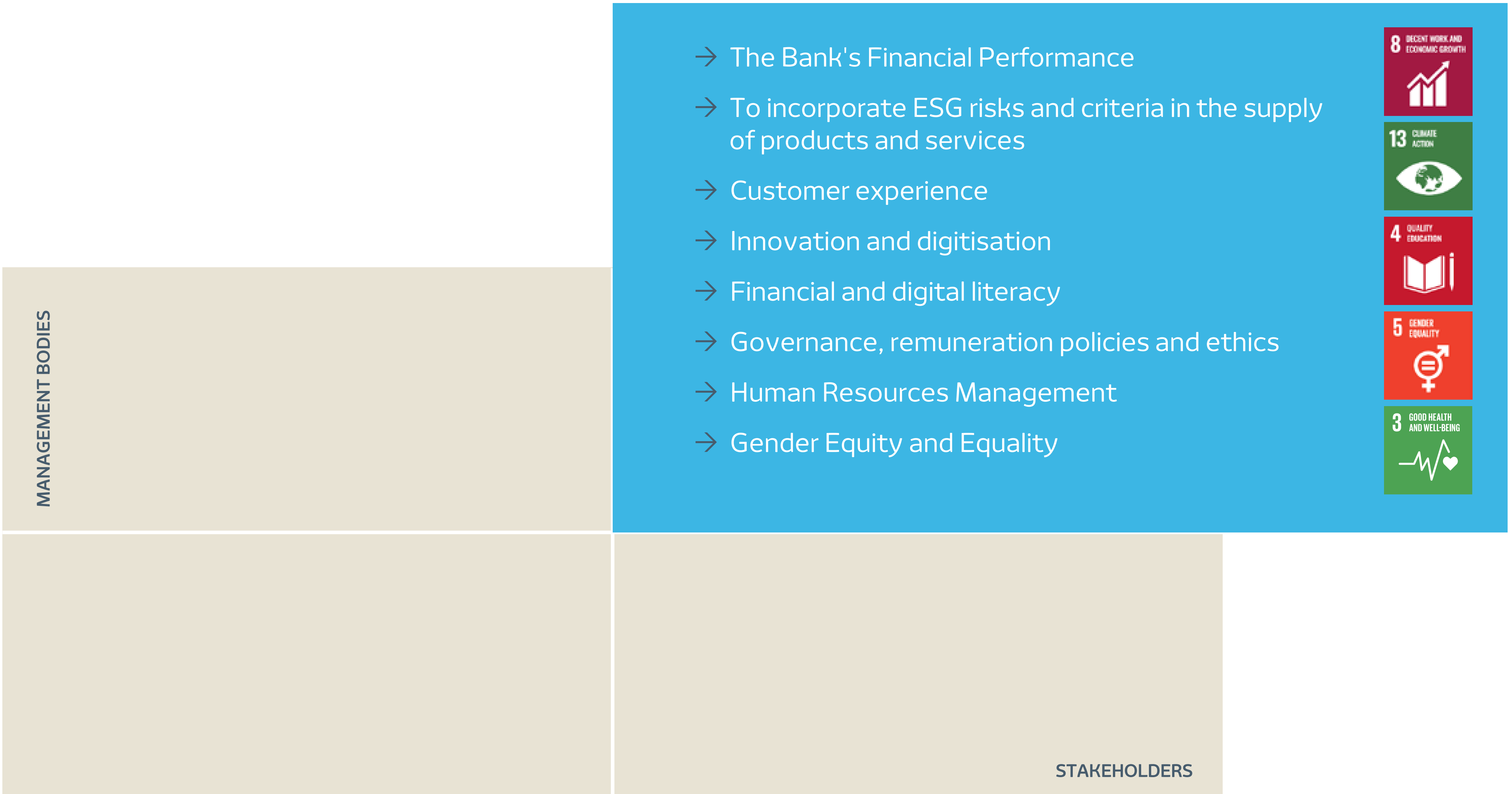
COMMUNITY

- Continuous in-person, telephone and online dialogue with Associations, Private Social Solidarity Institutions, social and environmental NGOs;
- Corporate Social Responsibility Initiatives
- Participation in conferences
- Social networks (novobanco Cultura, novobanco Facebook and Linkedin)

In addition to recurring interactions, we also regularly assess the materiality of ESG (environment, social and governance) issues by means of a questionnaire, relying on the strong involvement of our various stakeholders to identify ESG opportunities, risks and challenges in the management of our business. Through this consultation, we sought to analyse the main concerns and define the topics with the greatest potential impact for successful management and consequent creation of value, not only in the short but also in the long term.

The 2021 sustainability materiality assessment was carried out based on a consultation to our stakeholders, with contributions from our clients, employees, investors, suppliers, non-governmental organisations and novobanco Group's decision-making bodies that allowed us to define the material issues and Sustainable Development Goals (SDGs) for the novobanco Group:

LISTENING TO OUR STAKEHOLDERS AND IDENTIFYING OUR MATERIAL ISSUES



To define our ESG strategy, commitments and goals, we structured our approach along 3 axes that reflect how we address the material issues and sustainable development goals identified by our stakeholders.

Our ESG Priorities

SUSTAINABLE BUSINESS

Robust Financial Performance

Generating value for all our stakeholders

Sustainable operations

Minimizing the negative environmental impact from our operations, promoting innovation and digitization

Responsible Investment

Incorporating ESG risks and opportunities in our business model and commercial offer

SOCIAL AND FINANCIAL WELL-BEING

Well-being, Diversity and Inclusion

Recognizing the value of our people, promoting their well-being and growth in a diverse and inclusive corporate culture

Customer Experience

Serving our customers with convenience, proximity and transparency, ensuring a fair value exchange

RESPONSIBLE BANKING

Role Model for Positive Impact

Acting transparently and ethically, within a robust governance model. Promoting equity and gender equality

Community

Fostering Portuguese economic growth and promoting financial and digital inclusion in the communities we serve

2.2 RISKS AND OPPORTUNITIES ARISING FROM CLIMATE CHANGE

Concerns about environmental degradation and climate change take a prominent place on the global political agenda and consequently in businesses and the financial sector. The transition to a low carbon economy with strong emphasis on circularity involves risks and opportunities for the banking sector, while giving rise to new ways of doing business:

- Redirecting financial flows towards sustainable investments;
- Shifting the investment in the most polluting sectors by supporting companies' transition efforts;
- Integrating environmental, social and governance risks into the risk analysis;
- Managing under a medium and long-term perspective.

We recognise that assessing, quantifying and managing these risks and opportunities is still a rapidly evolving challenge that will require us to revisit and evolve our options, models and approaches over the coming years. This does not prevent us, however, from taking immediate action, building a robust but flexible and evolving transition strategy, progressively incorporating environmental and climate risks into our business model, adopting measures to combat global warming and reducing and mitigating the negative impact arising from our activity.

To address the opportunities and mitigate the risks arising from climate change, ESG risk management is included in the group's overall sustainability framework and business plan.

In this context, the ongoing developments in the ESG risk management system are crucial, focusing on the disclosure of non-financial information on the sustainability strategy and ESG risk management, the effective alignment with regulatory and supervisory expectations in this matter, and the implementation of ESG risk monitoring routines and assessment practices, involving the integration of specific controls in the business that guide origination.

For more information on ESG Risk Management at the novobanco Group, see chapter 4.3 Risk Management, in the Management Report.

Main Risks

- → Physical risks from climate change that derive from the increasing severity and frequency of extreme weather events.
- → Transition risks arising from gradual and long-term changes in the Earth's climate or from regulatory and legislative changes that may directly or indirectly affect companies, forcing them to alter their operations and business model or making their activities unviable.

Main Opportunities

- → Investment and financing needed for the transition to a decarbonised economy and the mitigation of climate change impacts.
- → Sale of new products and services, including:
  - → Green investment funds
  - → Social investment funds
  - → Green and/or sustainable financing

2.3 OUR ESG STRATEGY

The group has set itself the important goal of becoming a reference ESG entity in Portugal, contributing to the promotion of sustainable investment practices and to accelerating the process of transition to a carbon-neutral economy.

We are therefore developing our sustainability strategy, with special focus and priority given to the integration of climate risk into the business and risk management model, responding not only to the European Union's initiatives under its action plan on sustainable finance and the expectations and recommendations of regulators, supervisors and sector associations, but also taking into account the needs and expectations of our clients and the market.

CLIMATE CHANGE IS ONE OF OUR MAIN PRIORITIES

Our approach to address climate and social risks and to promote a positive social and economic impact in the communities we serve is structured around 3 pillars:

1. Business strategy Adaptation:

- At internal management level: minimising ESG risks to people and the planet and reinforcing the sustainability principles on the basis of which we interact with our suppliers;
- At banking activity level: supporting, on the one hand, investment and financing of clients in their sustainability journeys and in the orderly and just transition to a low carbon economy and, on the other, providing a response to clients who seek to incorporate responsible investment principles and environmental concerns in their financial assets' management;
- Pursuing an approach based on knowledge-sharing partnerships that maximise the impact of our initiatives, and consistently joining national and international initiatives to promote sustainability.

In this context, we are reviewing and adapting our financing and investment strategy, risk appetite and product and service offering to ensure a gradual alignment of the portfolio to meet COP26 goals, the EU Action Plan and national climate commitments.

2. Risk Governance and Management

- Implementing a governance and management model for material ESG issues at all levels of the business to promote a culture and actions that foster the transition to a sustainable socioeconomic development model, leading to responsible growth, job creation, people advancement and respect for the environment;
- Integrating ESG risks into risk management models, developing and adapting assessment, quantification, decision-making and monitoring models that guarantee alignment with the business strategy.

3. Disclosure and Reporting

- Committing ourselves to disclosing accurate and transparent activity reports from a sustainability perspective, informing on the group's position to internal and external stakeholders.

2.4 OUR COMMITMENTS

Having embraced the important goal of becoming an ESG reference entity in Portugal, integrating sustainability into its business model, the novobanco Group defined a set of commitments and ambitions that embody the ESG issues that are essential for the group and underpin its Sustainability Strategy.

Carbon Footprint

To reduce the Greenhouse Gas emissions in our own operations (scopes 1 and 2) by 50% by 2030

To increase the weight of low emission vehicles (electric and hybrid) in the group's fleet to 50% by 2024 and 100% by 2030

To consume 100% of electricity from renewable sources by 2024**.

** In all locations where this is possible and the contract is signed by the group

Gender Equality

To increase the representation of women in senior leadership positions by 4.5 p.p. by 2024

The commitments of Novo Banco, SA:

The Social Dividend Programme, whose 1st edition ran from 2017 to 2021, has been reformulated and is now running its 2nd edition, focused on the strategic priorities for the 2022 - 2024 triennium and structured into 3 distinct but complementary programmes: #Environment; #Social & Well-being; #Responsible Banking.

ENVIRONMENT	**+ €600 mn** of Green Investment[1] (vs. 2021)	**€0 mn** of financing to excluded sectors[2]	**30%** of investment products with ESG[3] characteristics	**- 30%** of Paper consumption[4] (tonnes, vs. 2021)	**-28%** Of CO_2 emissions from own operations[5] (tonnes. vs. 2020)
SOCIAL AND FINANCIAL WELL-BEING	**40%** of the employees benefiting from the social Well-being programme[6]	**+ 3 p.p.** of employees with psychosocial risk assessment of "Healthy"[7]	**+ 8 p.p.** in employee engagement level [8] (vs. 2021)	**+ 11.8 points** in clients NPS indicator[9] (vs. 2021)	**+ 9.594** hours of employees' voluntary service hours [10] (vs. 2021)
RESPONSIBLE BANKING	**+ 2.5 p.p.** of Women in senior leadership positions[11]	**- 0.9 p.p.** in gender pay gap[12]	**+ 3** Partnerships with organisations to promote the employment of people with disabilities[13]	**90%** of suppliers with sustainability score[14]	**+ 39.160** ESG training hours to the employees

1. Origination of financing or own portfolio investments in companies whose main economic activity is eligible to the EU Taxonomy and origination of financing or own portfolio investments where the use of funds by the borrower or the projects are directed to economic activities eligible to the EU Taxonomy or are aimed at investments in energy transition or the transition of the company's business model towards green activities; 2. Economic sectors not financed by novobanco: Weapons, Prostitution, Pornography, Coal (mining and energy production) and Illegal trade of exotic or endangered species; 3. Investment Funds, Financial Insurance and Structured Products; 4. Reduction of photocopy paper consumption thanks to the implementation of the Phygital programme in the commercial network (started in 2019) and the dematerialisation of processes in the central services; 5. Scope 1 and 2 GHG emissions; 6. Percentage of employees who benefited from at least 2 programme initiatives per year. Programme of initiatives to promote balance between personal and professional life, mental and physical health, healthy living, etc.; 7. Annual psychosocial risk assessment study of novobanco's employee base; 8. Assessment of the level of employee engagement carried through the Pulse survey (average % of employee engagement); 9. Net Promoter Score calculated for Individual Clients - BASEF; 10. Promotion of volunteering actions in strategic areas of social impact of the bank. Each employee can take 1 day leave per year for volunteer work; 11. First line managers and Executive Board of Directors; 12. "Gender pay gap weighted by the representativeness of each Performance Function" 13. Number of organisations with active partnerships being promoted by the Bank; 14. Recurrent suppliers to novobanco Group with annual turnover above 10 thousand euros.

2.5 OUR PARTNERS

The path to sustainability cannot be trodden alone. Therefore, on this journey we have joined a group of relevant partners for the execution of our strategy:

UN Global Compact	Signatory	Corporate citizenship initiative which had its origin, back in 2000, in a proposal by the then UN Secretary-General, Kofi Annan. It is based on ten fundamental Principles, in the areas of human rights, labour practices, environmental protection and anti-corruption, and aims to promote businesses' public and voluntary commitment to endorse these principles.
BCSD	Member	Non-profit association that brings together and represents more than 90 leading companies in Portugal, which are actively committed to the transition to sustainability.
iGen Fórum Organizações para a Igualdade	Member	Organisations for Equality Forum, created in 2013, comprises 69 organisations committed to reinforcing and highlighting their organisational culture of social responsibility, incorporating, in their strategies and management models, the principles of equality between women and men at work.
Target Gender Equality	Member	Global Compact accelerator programme, which supports companies in setting ambitious targets for women's representation and leadership in senior management.
Nova SBE Inclusive Community Forum	Member	The Inclusive Community Forum (ICF) is a Nova SBE initiative dedicated to the lives of people with disabilities and aiming to promote a more inclusive community.
GRACE	Member	Non-profit business association, which work in Social Responsibility and Sustainability. It is part of the European network of CSR Europe, a leader in sustainability and corporate responsibility, supporting several sectors at a global level, in the transformation and search for solutions for sustainable growth.
APB Associação Portuguesa de Bancos	Associate	Main entity representing the Portuguese banking sector, it was created in 1984 to strengthen the financial system and contribute to the development of a more solid banking sector.
APFIPP	Associate	Portuguese Association of Investment and Pension Funds and Asset Management Firms, which represents the interests of Mutual Funds management, Real Estate Funds management, Pension Funds Management and Asset Management, viewing a more efficient defence of these activities.
APQ	Associate	The Portuguese Quality Association is a non-profit organisation, founded in 1969, that aims to promote and disseminate theoretical and practical knowledge in the field of Quality and Excellence in Portugal.
ECSI Portugal	Associate	National Customer Satisfaction Index is a system for measuring the quality of goods and services available in the national market, through customer satisfaction surveys.
Business Ambition for 1.5°C	Subscriber	Document presented by the United Nations Global Compact, which has as its main objective to achieve the transition to a low carbon economy and to avoid the overheating of the atmosphere.
Carta de Compromisso para o Financiamento Sustentável em Portugal	Subscriber	Letter of Commitment to Sustainable Finance in Portugal, which aims to contribute to the promotion of sustainable investment practices.

3.0
SUSTAINABILITY GOVERNANCE

3.1 Main ESG Policies

Maria da Conceição Lopes Xavier
Operations Departament - Technician Assistant

Alexandre Fachada
Operations Departament - Operations Assistant

To the novobanco Group it is essential to conduct its activity with the firm resolve to make a positive contribution to the entire ecosystem within which it operates. This course of action requires a robust governance model, sustained by policies and principles of ethics and transparency that ensure effective and prudent management.

Shaping the future together.

novobanco recognises that progress in terms of sustainability requires solid governance and an organisational model that guarantees the success of its implementation, ensuring accountability, mobilisation and alignment at all levels of the organisation. Under this premise, and to ensure adequate coordination of this issue, the bank revised its sustainability governance structure, under the following principles:

- To ensure that the Executive Board of Directors (EBD) and remaining management team have ESG expertise, through the implementation of specific training paths adapted to novobanco's strategic priorities, and also ensure that this knowledge is spread among all employees, for growing sustainability literacy;
- To ensure the creation of a specific forum that leads sustainability discussions and initiatives, supported by a specialised team responsible for coordinating novobanco Group's ESG approach and by the assignment of specific competences and responsibilities to relevant departments that will ensure the integration of ESG in the various activities of novobanco.

Given the high pace of transformation occurring in all sustainability matters and the stage of maturity of the integration of ESG issues into the institution's business model, in 2021, the novobanco Group set up a Sustainability Steering Committee, with the participation of members of the EBD and multidisciplinary teams from the bank and subsidiaries, which meets monthly in order to accelerate the implementation of priority ESG initiatives.

This monthly forum allows a structured assessment and approach to sustainability, enabling its implementation across the entire organisation, and adding the environmental, social and governance dimensions to the economic dimension, to ensure:

- The definition of the strategy, positioning and action plans related to sustainability issues and their alignment with the action plans of the group's different operations and business areas;
- Monitoring the development and implementation of the established action plan and initiatives, and coordinating the teams appointed to support the implementation of the plan;
- Monitoring the impact of initiatives and the performance of the main indicators against the defined ambition;
- Liaising and coordinating with all relevant stakeholders and reporting on performance through the different internal and external communication channels.

3.1 MAIN ESG POLICIES

Our commitments are present in our policies and other relevant documents available on our institutional website.

EQUALITY AND NON-DISCRIMINATION POLICY	Establishes the principles of non-discrimination and promotes equality: 1st) Prohibition of discriminatory practices on the grounds of gender, race, colour, creed, socio-economic conditions or sexual orientation; 2nd) Promotion of adequate work conditions for employees with disabilities; 3rd) Prevention and control of practices which may give rise to discriminatory situations of any type.
HUMAN RIGHTS POLICY	Advocates respect for human rights and defines procedures to deal with any transgression of these rights. novobanco acts in full compliance with the law. It promotes respect for human rights and decent work practices within its sphere of influence, namely among its employees, clients, partners, suppliers and remaining stakeholders.

CODE OF CONDUCT	The Code of Conduct aims to disseminate the principles that should steer the companies and activities of novobanco Group, promote an ethical conduct, aligned with the group's values, and foster respect for and compliance with all applicable laws and regulations and a transparent system of relations with the outside world.
SUPPLIER RELATIONSHIP PRINCIPLES	Establishes the minimum requirements, set not only to suppliers but also to the group, with regard to business practices, health and safety at work, ethics and environmental management.
REMUNERATION POLICY OF NOVOBANCO EMPLOYEES	Remuneration principles and rules for novobanco employees established under the terms of article 115-C of the General Law on Credit Institutions and Financial Companies (*Regime Geral das Instituições de Crédito e Sociedades Financeiras*).
REMUNERATION POLICY FOR THE MANAGEMENT AND SUPERVISORY BODIES	Remuneration principles and rules for the members of novobanco's Management and Supervisory Bodies established under the terms of article 115-C of the General Law on Credit Institutions and Financial Companies.
RISK APPETITE	Establishes, among others, the exclusion from financing and investment of sectors that may negatively impact Sustainable Development, namely: mining sector associated to coal, pornography and prostitution, weapons (except if associated to national defence), and illegal trade of endangered or exotic species.
POLICY ON THE PREVENTION OF MONEY LAUNDERING AND TERRORIST FINANCING	Establishes the rules, procedures and key elements for the bank's counterparties and respective transactions that allow the bank to detect and prevent potential money laundering and terrorist financing activities.

POLICY ON CONFLICTS OF INTEREST	Establishes the set of principles to be observed by novobanco and the novobanco Group to identify, prevent, and mitigate conflicts of interest in the development of their activities, and provides the specific procedures to be adopted within novobanco to manage, remedy and log situations of conflict of interest that may arise.
WHISTLEBLOWING POLICY	Regulates the reporting of irregularities by the bank's employees, as well as by service providers or any third parties, and its objectives are to preserve the bank's reputation, effectively protect its assets and those of its clients, and prevent or detect in advance any irregularities that may be committed.
RELATED-PARTY TRANSACTIONS POLICY	Determines the procedures to be adopted to ensure that novobanco has, at all times, a comprehensive and updated list of its related parties, establishes the internal rules and responsibilities relating to the identification of transactions proposed or planned by novobanco that fall into the category of Related-Party Transactions, and establishes the internal procedures and responsibilities for the review and prior approval of Related-Party Transactions.
SUSTAINABILITY POLICY	Defines the sustainability positioning of the novobanco group and identifies its commitments and guiding principles with respect to its material issues at environmental, social and governance (ESG) level.

More information on novobanco group's governance model is provided in chapter 5 CORPORATE GOVERNANCE of the Management Report.

4.0
OUR PERFORMANCE

4.1 Our clients
4.2 Our employees
4.3 Our suppliers
4.4 The reduction in our direct environmental impact
4.5 Community

Vânia Elias
South Retail Department - 360 Senior Client Manager

Nelson Soças
South Retail Department - Branch manager

Based on our Sustainability Policy we have assumed a clear position and defined priorities for action during the next three years, through which we want to develop a sustainable business based on the following goals and guiding principles:

- **Contribute to the transition to a low carbon economy;**
- **Support and promote financial and social well-being;**
- **Continuously strengthen our performance according to the highest standards of ethics, responsibility and transparency.**

Our performance is based on five values that define our positioning:

COLLABORATION	We collaborate with all stakeholders in order to achieve the best results for our clients and for society
DYNAMISM	We embrace continuous transformation and reinvention in order to remain relevant
DIVERSITY	We reflect customer and employee diverse needs onto the solutions and plans we devise and deliver
TRANSPARENCY	we maintain authentic and open exchanges of information among all stakeholders
EMPATHY	we incorporate the voice of clients and society into the way we do business

These principles and values guide our actions and the way we:

- **Aspire to continuously respond to the ever-changing expectations and needs of our clients,**
- **Are committed to strengthening the relationship with our employees, promoting and valuing diversity in the bank's employee base as a strategic lever, and fostering an inclusive culture that allows employees to fully realise their potential;**
- **Incorporate ESG criteria in our supplier selection models;**
- **Give back and generate positive impact through our activity, in the communities we serve.**

Shaping the future together.

4.1 OUR CLIENTS

In order to offer the best experience to our clients, the group seeks to gather as much information as possible about what they want, when, where and how. Knowing our clients' expectations and needs throughout their life cycle allows us to identify opportunities for improvement, using a robust model for monitoring the customer experience based on several action pillars.

SERVICE QUALITY	Monitoring the customer experience in all the commercial structures of the bank, through a questionnaire designed to measure their satisfaction with the various dimensions of service, as well as other global indicators.
MOMENTS OF TRUTH	Continuous monitoring of the customers' experience immediately after the main moments of their relationship with the bank, in order to identify improvements that will allow us to meet their expectations and needs.
DIGITAL CHANNELS	Customer satisfaction survey targeting the different aspects of the digital channels (available features, ease of use, security, visual attractiveness) and peer comparison.
QUALITY INDICATOR	Development of a Quality Indicator for the commercial network that reflects the quality of service and other elements that impact the customer experience.
AD HOC SURVEYS	Carrying out specific surveys on a case-by-case basis and using different methodologies, depending on the critical topics of the moment.
EXTERNAL SURVEYS	Monitoring of external benchmark market surveys such as the ECSI (developed by APQ and NOVA IMS), BASEF Banca (developed by Marktest), and the Financial Services Barometer (developed DATA E).

The information obtained through this monitoring model is shared with the bank's commercial structures and with the central areas, enabling a set of actions to be taken that aim to improve the customers' experience with the bank in its various dimensions.

In order to correct the reasons for dissatisfaction conveyed by clients through satisfaction surveys, the Restart programme sends a lead to the account manager's workstation, thus allowing the commercial network to assess the grounds for dissatisfaction and mitigate them whenever possible.

In 2021 we collected approximately 69.9 thousand replies to the satisfaction questionnaires made to our individual and commercial clients.

Retail Banking

Our purpose is to create a value proposition that enables us to give an adequate response to our clients. To this end we constantly seek to learn about the needs of our clients at every step of their lives, actively listening to what they have to say through the various channels available, so as to keep developing and implementing the product and service offerings that best suit their needs and expectations.

In 2021, we collected approximately 65.2 thousand replies to the satisfaction questionnaires, covering four segments of Retail: Individuals, 360º, Small Businesses and Singular.

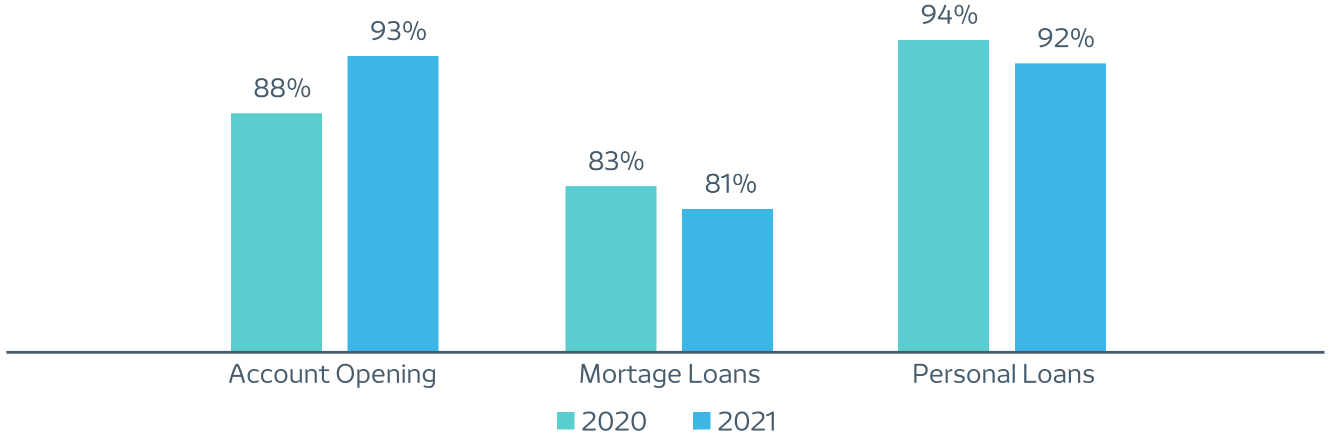
87% of novobanco clients and 92.5% of novobanco Açores clients are very satisfied with the quality of the service provided to them.

We also collected the opinion of around 17.5 thousand clients about their experience in the key moments of truth in their relationship with the bank, and in particular with regard to the account opening, mortgage loans, and personal loans.

The confidence index [1] of novobanco's clients stood at 77.5% in 2021 vs. 74.7% in 2020. The Net Promoter Score (which calculates the intention to recommend the Bank) was 29 in 2021.

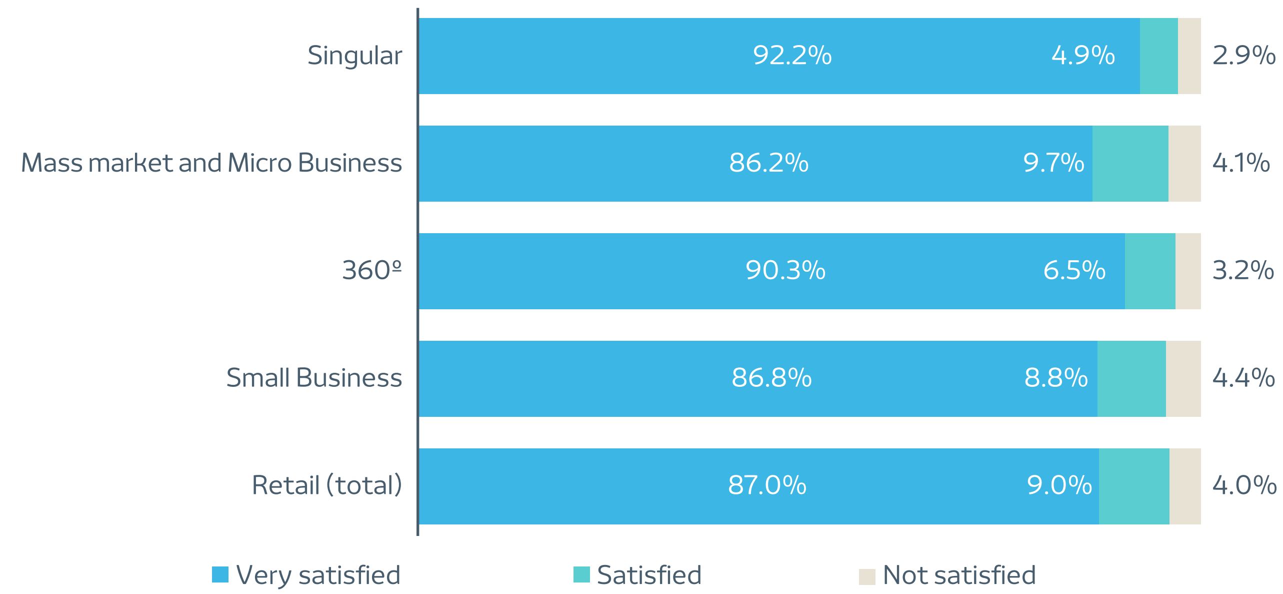
MOMENTS OF TRUTH VERY SATISFIED COSTUMERS

(%)



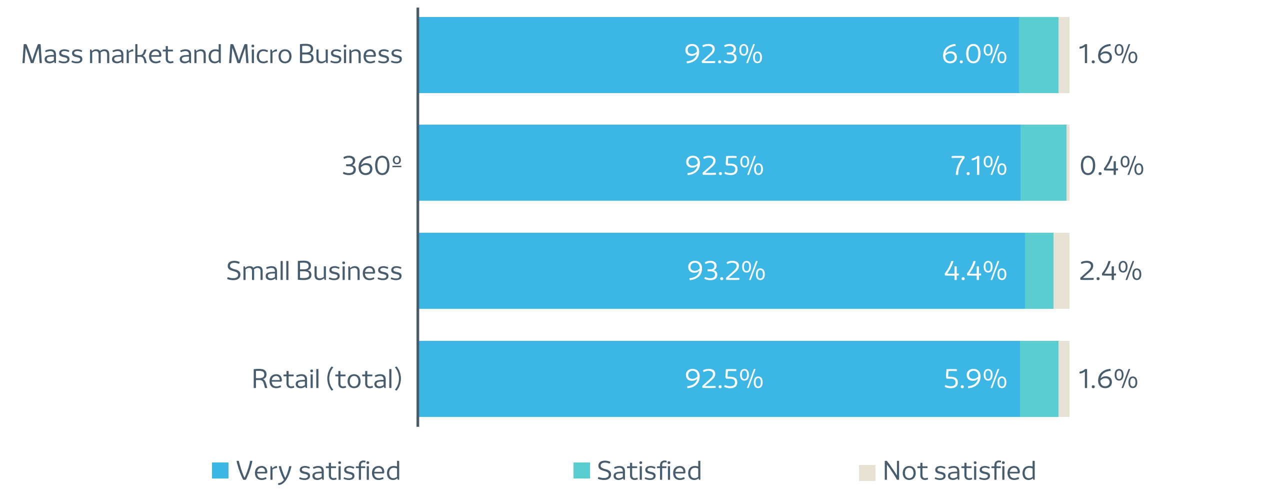
SERVICE QUALITY RETAIL NOVOBANCO

(%)



SERVICE QUALITY RETAIL NOVOBANCO DOS AÇORES

(%)



Commercial Banking

Creating a value proposition for the Commercial segment that is innovative, competitive and profitable, and bolsters novobanco's role as the reference bank for companies in Portugal, remains a key priority, and the customers' voice gives a crucial contribution to attaining this goal.

In 2021, commercial banking collected approximately 2.4 thousand replies to customer service satisfaction surveys. The results show that 89.9% of the SME commercial clients and 84.4% of the Large corporate clients are very satisfied with the bank's service, which demonstrates that the bank's activity matches the needs of its clients.

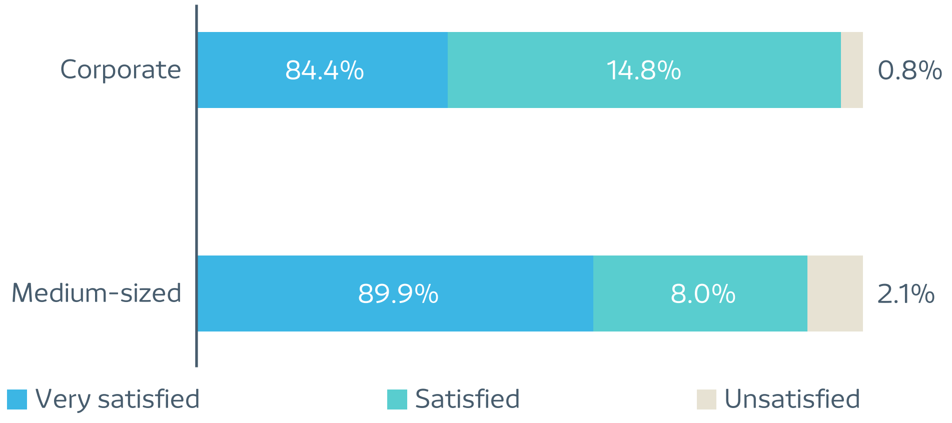
In 2021 the SME clients' confidence index was 77%. The Net Promoter Score stood at 32.2 in 2021, which compares with 24.4 in 2020.

In the Commercial Clients segment, the bank also assessed the experience of 958 clients after taking out a loan, and then shared the results not only with the commercial areas, but also with the marketing areas, which used these data to support the introduction of innovations and the launch of new products and services.

In the Large Corporates segment, the confidence index improved to 76.1% in 2021, from 74.2% in 2020. The Net Promoter Score also increased in 2021, reaching 20.

SERVICE QUALITY

Commercial Banking (%)

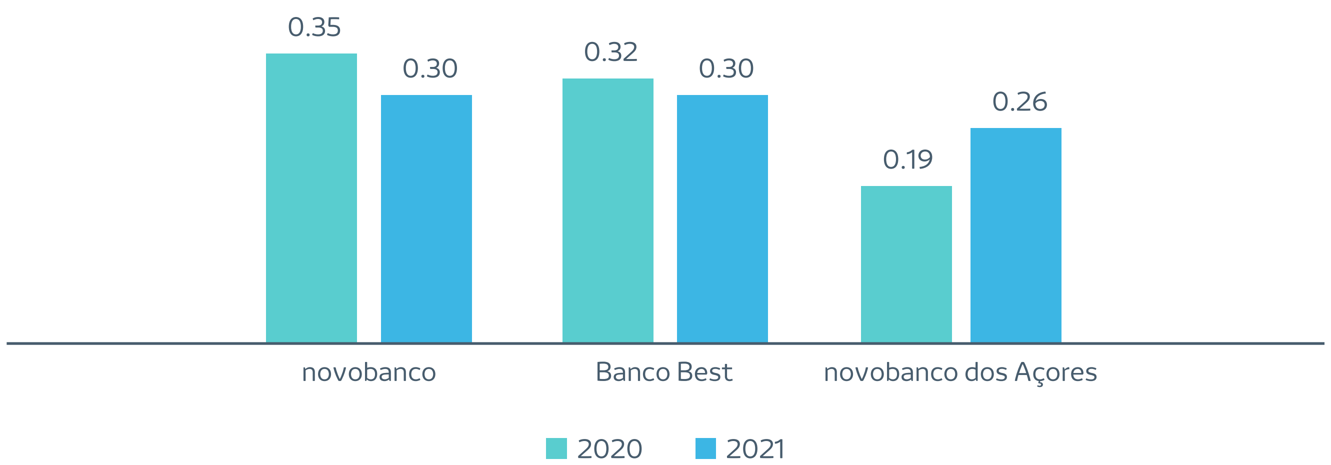


Clients may lodge complaints through several channels, and an effort is made to solve problems at the first contact with the client. The establishment of honest, transparent and continuous contact with the clients requires fast and efficient replies to their comments or complaints, which helps develop a relationship of trust.

At novobanco and Banco Best, the rate of complaints was 0.30 per thousand active clients in 2021, a significant reduction compared to 2020 that reflects the customer satisfaction with the service provided. In recent years clients have shown increasing preference for using the digital channel to submit their complaints, especially at Banco Best where all clients have online access. At novobanco dos Açores this rate was 0.26.

CANAIS PARA APRESENTAÇÃO DE RECLAMAÇÕES

COMPLAINTS RATE/ACTIVE CLIENTS



4.1.1 Our ESG products

Adjusting products and services to customer needs, new market trends and regulatory requirements has been the basis for the redefinition of novobanco group's offer, which is increasingly more attuned to environmental, social and ethical concerns.

Supporting our clients towards a sustainable and carbon-neutral economy

With the firm resolve of contributing to the promotion of sustainable investment practices and accelerating the process of evolving towards a carbon-neutral economy in 2050, in 2021 we made several ESG products available to our clients, assuming an active role in supporting this transition to a low carbon economy.

Specifically in terms of support to companies, during 2021, novobanco positioned itself from the very first moment as a strategic partner, providing financial support to small and medium-sized companies (Capitalizar 2018-COVID-19 Credit Line, and Sectoral Lines of Support to the Economy) through loans and the renewal of loan moratoria.

There was also a strong focus on the digital transformation of processes, investing in remote relationship and signature tools.

As regards the Recovery and Resilience Plan and EU funds, novobanco intends to be a prominent partner of companies, supporting them in the execution of their structural projects, either with complementary financing or with other ancillary banking services, thus responding to this pressing challenge and helping Portuguese companies to benefit from this opportunity.

The bank supports its customers in their journey towards sustainability, financing and supporting investment projects aimed at energy transition, as well as projects with social concerns. The bank also addresses the needs of clients that want financial products with ESG features for their investment portfolio.

New disclosure requirements relating to sustainability have behavioural effects on companies' business models as well as on their need for banking support and in this context, we aim to consistently incorporate ESG factors into our financial products and services in order to offer and differentiate products tailored to the expectations of our clients and investors.

We have signed up to the "Business Ambition for 1.5ºC" initiative, undertaking to set science-based targets to reduce the group's greenhouse gas emissions with a special focus on Scope 3.

We signed the "Letter of Commitment for Sustainable Finance in Portugal", which aims to contribute to the promotion of sustain-able investment practices in the country, with the purpose of accelerating the process of transition to a carbon neutral economy by 2050.

Loans			Performance 2021
Individual Clients	**ECO residential mortgage loans**	With a clear environmental focus, the client can benefit from a bonus on the spread when choosing to acquire a property with energy certification A+, A and B.	€17.18 mn 106 Clients 1.7% of total mortgage loans production in the year
	Efficient Home 2020 Line	These lines provide favourable terms on loans intended to promote the improvement of the environmental performance of private housing buildings.	
	Personal Loan - Hybrid and Electric Vehicles	In October 2021, we introduced in the pricing strategy of the Car Personal Loan (for new and used vehicles) a 1% bonus for Vehicles eligible for green mobility (plug-in, hybrid electric and non-electric hybrids).	€0.236th 9 contracts
Companies	**Credit Line for Decarbonisation and Circular Economy**	The purpose is to facilitate access to financing for the implementation of sustainable projects. This credit line is available for, among many others, investment in the replacement of existing equipment for more innovative, modern and efficient equipment, investment in renewable energy sources for self-consumption in the production process or in circular strategies for any stage of the product/service life cycle, and for the implementation of monitoring, control and action devices that optimise the conditions of use, energy consumption and raw material consumption.	

AT BANCO BEST WE RECORDED 48% YOY GROWTH IN THE VOLUME OF FUNDS/ETFS INCORPORATING ESG FACTORS

Investment		Performance 2021
ESG and novobanco Structured Products	Products whose remuneration is linked to the share performance of companies that stand out for their capacity to lead social and governance change subject to environmental and social criteria. The selection of companies to integrate these products is subject to a rigorous assessment process and criteria, which was further strengthened in 2021 not only in line with the bank's risk policy, but also with industry-sector exclusion criteria (companies producing or selling tobacco, or engaged in coal mining and nuclear energy are not eligible), and criteria governing the exclusion of companies engaging in practices that breach human and labour rights, including child and/ or forced labour. When manufacturing, construction, transport, tourism, agriculture and forestry, electricity, gas and oil companies are at stake, the bank undertakes to assess their environmental and social performance, and will not include companies with: • Air pollutant activity: > 50% of turnover, or • Reduction in the weight of their air polluting activity in the last 5 years by: < 5%, or • No defined environmental objectives.	**novobanco** €88.3mn subscribed in 2021 Cumulative investment of €457.7mn in ESG/ ECO product subscriptions 63.2% weight in the total portfolio of structured products **novobanco dos Açores** €1.3mn subscribed in 2021 Cumulative investment of €2.7mn in ESG/ ECO product subscriptions 55.3% weight in the total portfolio of structured products

Investment		Performance 2021
ESG Funds	Funds that invest in companies committed to the environment and society, and to high standards of governance. The group classifies these funds into two categories: • Category I - Article 8 SFRD (Sustainable Finance Disclosure Regulation) - funds that invest in companies that have environmental, social and governance concerns. • Category II - Article 9 - funds that have sustainable investment as their objective.	**More than 1,100 ESG funds** with investment made by our clients **novobanco** **Category I** 28 funds with an investment of €162mn 46% weight in the total portfolio of distributed funds **Category II** 3 funds with an investment of €188mn 54% weight in the total portfolio of distributed funds **Banco Best** **Category I** 1,003 funds with an investment of €244mn 27.3% weight in the total portfolio **Category II** 129 funds with an investment of €26mn 3.0% weight in the total portfolio **34 ESG ETFs** invested by our clients **Category I** 32 ETFs with an investment of €2mn **Category II** 2 ETFs with an investment of €52mn

Asset Management		Performance 2021
NB Momentum Sustentável Fund	It offers holders access to a diversified portfolio of assets of companies that adopt the best practices in terms of ESG criteria with the purpose of achieving a consistent long-term valuation based on the three pillars of Sustainability. A minimum of 75% of the direct investment component of the Fund is invested in companies with an ESG rating from Eikon above 50 points. The Fund will invest at least 85% of its net asset value in shares and other securities which are convertible into shares or give the right to subscribe shares.	**€181.32mn** Weight of 20.2% in national funds under management and 1.8% in total funds under management.

Accounts		Performance 2021
18.25 Account **26.31 Account** **18.31 Account**	Fully carbon-neutral accounts, with a lower environmental impact due to their low carbon footprint, because they are online accounts with a large part of the day-to-day services free of charge when used online, and because the bank neutralises the resulting emissions by supporting sustainable projects. The emissions produced are calculated according to the PAS 2050:2008 methodology, which takes into account the entire life cycle of products and services. To neutralise these emissions novobanco supports Soil & More, a green waste composting project in South Africa that not only reduces carbon emissions but also contributes social and economic benefits for local communities and sustainable development, and also the Kamuthi project to install a solar photovoltaic plant to replace power generation from coal-fired power stations. NB 18.31 Accounts. The NB18.25 and NB26.31 accounts have an estimated carbon impact of around 944g CO2eq/year.	**106 076 18.31 Accounts – €209.8mn** **39 948 18.25 accounts €52.1mn** **10 773 26.31 Accounts – €28.6mn** 14% weight in the bank's total service accounts (individuals and small businesses). All accounts have their CO_2 emissions neutralised, corresponding to 1,700 tonnes of CO_2 neutralised, of which 202 tonnes in 2021. These accounts have already permitted to neutralise the equivalent of emissions from 308 single return flights between Lisbon and London.

Financial well-being / financial health

The adaptation of products to the needs of customers also involves the progressive integration of social concerns. novobanco intends to increasingly adapt its products to the new and diverse realities of its clients. Accordingly, its saving products allow for building up a nest according to each family's budget. In line with this positioning, the Bank offers a package of Micro Saving solutions comprising three products, namely Planned Savings, Micro Savings and the Targeted Savings Smart app.

WE HAVE NEUTRALISED THE CO2 EMISSIONS OF THE 18.31, 18.25 AND 26.31 SERVICE ACCOUNTS, EVEN THOSE NOT RESULTING FROM OUR CLIENTS, NAMELY FROM COMPUTER USE, ATM ENQUIRIES AND CARDS, AMONG OTHERS

Savings		Performance 2021
Planned Savings	Allows clients to build up savings from as low as 10 euros per month through the subscription of a monthly plan in which the clients set the amount and the time of month of deposits, thus adjusting savings to their family budget	**€672.36mn in savings** **122.5 thousand subscriber clients**
Micro Saving	This solution allows any client to start saving money by small amounts through the rounding up of debits of day-to-day expenses (such as residential mortgage loan instalments or personal loan repayments, insurance premiums, or direct debits), which are transferred to a savings account.	**€8.12mn** **40.84 thousand subscriber clients**
novobanco App_ (Targeted savings)	Exclusive product for Clients who have installed the novobanco App: once the client has defined his/her/their saving objectives (how much and for how long he/she/they want to save) the novobanco app traces the path to reach this objective.	**€8.12mn** **40.84 thousand subscriber clients**
These savings products make up a total of €701.7 million and represent 7% of the total in term deposits and savings accounts (excluding savings accounts linked to service accounts).		
Best Bank App (Targeted Saving)	Exclusive product for users of the bank's App, where each client defines one or more objectives, setting a date and an amount and choosing a name and an icon, and the bank calculates a savings plan for short-term goals. The client can stop saving at any time or withdraw part of the amount. The bank sends e-mails with the status of the savings, recommending reinforcements, if necessary, as well as sending incentive messages. For long-term objectives, Banco Best's robot proposes an active management portfolio - an insurance-based investment advisory service that is unique in Portugal and one of the first in Europe. In addition to the initial recommendation each time the client checks his/her objectives the robot validates the performance of the investments and if necessary, recommends changing portfolios, and near the end date it also proposes a gradual reduction of the portfolio risk to avoid market volatility.	**220 thousand euros** **250 clients**

Minimum Banking Services		Performance 2021
Minimum Banking Services Account	This account provides a wider coverage of financial services provision and therefore wider social inclusion. It gives clients a current account and a debit card and the possibility to use the account through ATMs in the European Union, direct channels and bank branches. Its annual maintenance fee that cannot exceed the equivalent of 1% of the social support reference rate at any given time. This product is designed for: • Individuals who hold no other current account in any other institution, or who hold only one current account which is converted into a minimum banking services account. • Individuals who hold other current accounts, but wish to open a minimum banking services account where one of the holders is over 65 years old or is dependent on others.	**10.8 thousand Accounts**

The service accounts of novobanco and novobanco dos Açores are associated with social responsibility causes (social, cultural and environmental). When opening an account, customers can choose which of the projects supported by Novobanco they wish to support:

Accounts		Performance 2021
100% and 360º Accounts	**Semear Project (Sow Project) -** Social inclusion programme for young people and adults with intellectual and developmental difficulties, organised by BIPP, Associação Inclusão para a Deficiência. The programme provides certified training, and development of skills for employability and professional integration, in the processing and production of components from organic farming. This programme minimises the limitations of these young people and adults by encouraging them to develop their full potential and become autonomous. **Este Espaço Que Habito (This space I Inhabit) -** promoted by the Photographic Expression Movement (MEF) in 5 Educational Centres hosting young people in compulsory internment, using photography as a technical and personal expression means to search for and develop one's own identity based on the spaces photographed. The project is developed in partnership with the Ministry of Justice and the Youth Justice Services. **Recreational Toys Recycling Project -** Developed by ZERO WASTE LAB, the project aims to help with the problem of what to make with discarded plastic toys. It promotes the recycling and circulation of plastic and other toy materials for new purposes and raises the awareness of and educates citizens about the problems arising from the increase in waste production.	Novobanco supports these three projects with a total amount of €270.8 thousand.

Still with regard to financing products, the group, through Banco Best, provides a collaborative financing solution (crowdfunding) that allows individual clients to support micro and small businesses' growth.

Collaborative Financing		Performance 2021
Collaborative Financing – Banco Best / Raize	Crowdfunding is an innovative and revolutionary solution, 100% digital, that brings investors and companies together to grow their businesses through loans.	**€0.2mn** **133 Accounts**

BEST/RAIZE IN THE FINTECH REPORT PORTUGAL 2021 PROMOTED BY ASSOCIAÇÃO FINTECH PORTUGAL, AS A CASE STUDY OF PARTNERSHIPS BETWEEN FINTECHS AND BANKS

4.1.2 Our digital transformation

Digital transformation is one of our strategic pillars. We want to bring innovation, agility and greater efficiency to our processes, to our internal talent and above all to our clients, improving their experience and leveraging on new information systems and data science solutions to better meet their needs and expectations.

Shaping the future together.

We are an innovative bank with customer-centric solutions, focusing on convenience and offering a unique personalised and omni-channel banking experience. We aim to accelerate the full digitisation of processes to improve the customer experience and internal efficiency, addressing customer journeys and transforming the operating model, while reducing the ecologic footprint associated with our activity.

FINANCIAL AGGREGATOR OF NOVOBANCO CORPORATE ONLINE WINS BEST BANKING PROJECT AT THE PORTUGAL DIGITAL AWARDS

The digital offer covers all the different segments of the bank:

Individual Clients	Corporate Clients
The group offers the following solutions: **novobanco** • The novobanco App (launched at the end of 2020 and since then featuring constant improvements and novelties) has 436.1 thousand active clients, a 11.7% increase compared to 2020. • The novobanco online homebanking service has 278.1 thousand active clients in 2021, a year-on-year reduction of 0.5% that was driven by the migration to mobile and shows the preference of active digital clients for the new app. **novobanco dos Açores** • The novobanco dos Açores App has 10.8 thousand active clients, an increase of 19.0% compared to 2020. • The online homebanking service has 278.1 thousand active clients in 2021, a year-on-year reduction of 5.7% that was driven by the migration to mobile, with the app being preferentially used for financial transactions. **Banco Best** All the clients have access to the web and app digital channels, with 75% of active clients having accessed them in the last 3 months of 2021. The number of app accesses increased by 31% compared to 2021.	The group provides: **novobanco** • novobanco online homebanking service for companies, renewed in 2021, which includes the award-winning Financial Aggregator. This is a digital financial management solution, pioneer in Portugal, that allows an aggregated view of all bank accounts and the initiation of payments and includes features such as a financial calendar, the categorisation of movements, and alerts and notifications, which contribute to improving the operational efficiency of novobanco's clients as well as to their digital transformation. **novobanco dos Açores** • Homebanking service for companies, which in 2021 recorded a 19.2% year-on-year increase in the number of corporate customers with an active service. The clients' preference for the homebanking for companies was due to the set of solutions and services available to them, as well as the improvements and new functionalities introduced in the service during 2021, which contributed to direct companies towards an environment of greater digitalisation, with benefits in terms of efficiency, management, lower financial costs and negative environmental impacts.

As part of novobanco's digital transformation strategy, and with a view to widening the scope of this strategy, improving efficiency, and addressing environmental and social impacts, the following solutions, deriving from the revision of the customer journeys, stand out:

NOVOBANCO APP WINS BEST UX/UI IN FINANCE INITIATIVE IN THE BANKING TECH AWARDS 2021

Journey of the individual client

The novobanco App, with a completely renewed design and customer experience, is adaptable and customisable, inclusive and predictive (based on data science) and offers a wide range of services and solutions, including the aggregation of accounts with other banks. While reducing the ecological footprint of the bank and its clients and increasing internal efficiency, it also contributes to improving digital literacy levels.

In 2021:

→ We made new functionalities available: new options to subscribe to investment funds and life insurance, improved online account opening by digital mobile key and video call, management of c ategories of current account movements from any bank account, new digital portfolio functionalities, among others;

→ We improved the customisation model with regard to behavioural aspects in the prediction of the 4 most probable transactions at each moment of the day, and also the user experience and security, the latter through the replacement of SMS validation code by push notifications for the confirmation of transactions;

→ We made the Life Insurance simulation and subscription process available in authenticated channels;

→ We made it possible to view and change personal data in the digital channels (for individual clients).

Corporate Clients' Journeys

The novobanco online for companies, now renewed with the Financial Aggregator, where all accounts can be combined in a single solution, makes the financial management of the business easier and more comfortable.

In 2021:

→ We revamped online banking for companies to improve the customer experience in using the channel (browsing and searches, help templates, document area);

→ We introduced a functionality to securely send documents/files through the digital channel, replacing the need to print paper (example: support documents to Factoring and Confirming operations)

→ We introduced a budget management functionality in the financial aggregator (budgeting)

→ We extended access to the loans to small businesses digital solution to cover a larger customer base. A totally secure process, with no need to deliver any documentation or go to the branch, with funds made available in less than 48 hours.

→ We enabled credit card applications for company representatives through the digital channels.

Digital channels – website

In 2021:

→ We launched the new content platform for the novobanco website (www.novobanco.pt), now in Full SaaS, with personalisation integration via Data Science. Fully integrated with the authenticated channels, it enables a more efficient content management and contributes to digital customer activation and digital sales, thus fostering a paperless culture.

→ We launched the Non-Financial Offer (NFO) area on the bank's public website;

→ We made available consultation and simulation functionalities for Home Insurance;

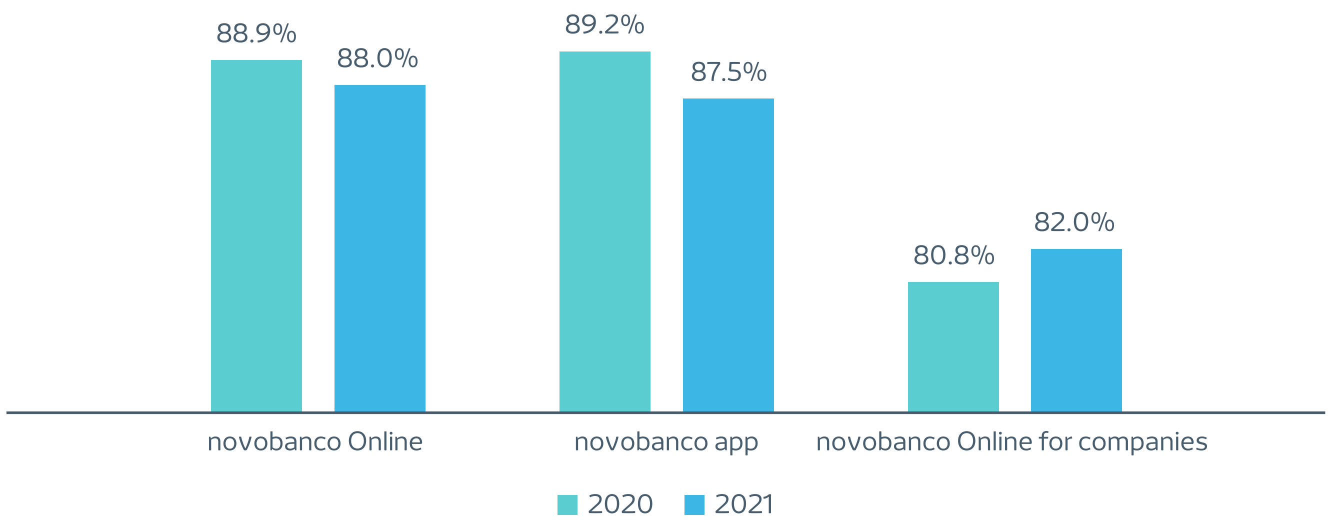
In the adverse scenario created by the consequences of the COVID-19 pandemic, novobanco used digital transformation to support its clients, namely using Artificial Intelligence to predict and model the impacts of COVID-19 on the national economy.

Throughout 2021, the bank continued to promote new data science capabilities:

- We enhanced the customer journeys through the development of customisation and personalisation models and functionalities in the channels;
- We applied Machine Learning models in money laundering prevention methods;
- We provided support to businesses using propensity models, to activate or deactivate clients, or identify best offers;
- We built indicators to identify signs of risk in and support clients with moratoria;
- We developed the capability for timely assessment of the impact of the Covid-19 pandemic on the economy (on families, businesses and activity sectors).

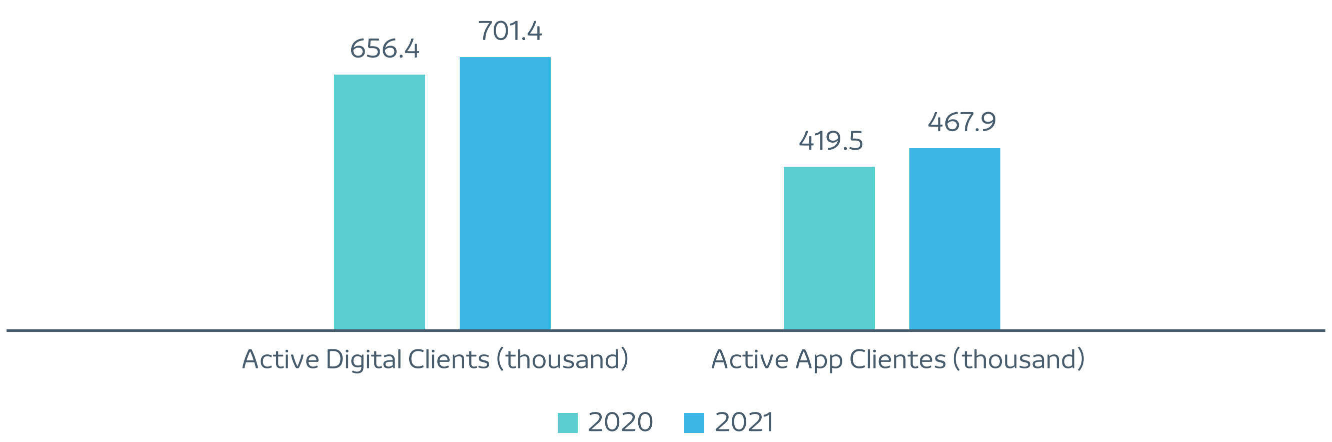
VERY SATISFIED CLIENTS

Digital Channels (novobanco)



ACTIVE DIGITAL CLIENTS

(novobanco Group)



In order to measure the impact of technological innovations on the customer experience, around 42,900 surveys were conducted throughout 2021, which permitted to assess the overall satisfaction with the channels (app, novobanco Online and novobanco Online Companies) and the intention to recommend them. In the specific case of the app, an in-depth survey was conducted to assess the experience of using it and to identify opportunities for improvement, to which 880 responses were obtained.

In 2021, we highlight the improvement of 1.2 percentage points in the assessment of novobanco Online Companies, with the percentage of very satisfied clients rising to 82%, leading to an increase of 3.7 points in the NPS.

The app, the preferred customer interaction channel, shows the highest Net Promoter Score, of 54.7.

Banco Best

Best's public website was revamped with the inclusion of new product comparators and micro-questionnaires on investments.

In account opening, already available by video call and Digital Mobile Key, in 2021 the process was redesigned to improve the experience, and the possibility of opening an account with a foreign passport was introduced (restricted to some European countries).

A further set of improvements was also introduced which included:

In the app:

- Improvements in the user experience (e.g., introduction of the modular and omnichannel Investor Profile Questionnaire) and introduction of more investment and trading options, both in terms of products and of the information available (e.g., information on Indexes and Corporate Events and whishlist)
- Innovative tools such as the financial dashboard and the intelligent search for products, contents and functionalities.
- Capability to update customer data in real time and interactively.
- Greater personalisation with the possibility of defining appointments and favourites, sharing documents and operations or personalising background colours and photos and changing account names, choosing the name by which you want to be addressed.
- Introduction of a traveller area with geolocation, to subscribe to Travel Insurance.

On the website:

- Redesign of the transactional website for clients with renovated menus and introduction of icons.
- Improvements in the integrated wealth enquiries, with real price updates, information on capital gains and losses and a sales simulator.

4.1.3 Data privacy and security

The protection of customers can only be properly safeguarded if the activity of novobanco Group is adequately protected. Therefore, and in accordance with best market practices and legal and regulatory requirements, the group ensures the confidentiality, integrity and availability of information.

Customer protection is present in all the Bank's activities, including the safety of the client, the security of the transactions carried out, and the protection of the personal data of clients and remaining account holders. To ensure privacy and the correct treatment of personal data, the group has developed a set of procedures and internal rules, as well as a Privacy Policy, and its website provides detailed information on the treatment of personal data.

Our relentless efforts to prevent, detect and react to the new cyber threats arising from digitisation led to increased attention and stronger technical control.

The Bank invests in the strengthening of its software and continuously warns its clients about the latest fraud attempts, issuing security advice for safe Internet browsing and safeguarding the security of transactions and personal data, in the various channels (namely e-mail, direct channels, PC, smartphone and tablet).

With the objective of ensuring global security in cyberspace, novobanco develops regular training and awareness-raising activities on information security for all its employees. These contents are applicable in a professional or personal context, and reinforce the fundamental role that all employees play in the prevention of cyber risks.

The bank maintains the security contents in the digital channels, so that they can be viewed in a very quick and practical way, at any time and from anywhere. This is essential to ensure confidence in the ecosystem in the context of teleworking.

During 2021, the novobanco Group received no complaints originating from the National Data Protection Commission (CNPD).

4.2 OUR EMPLOYEES

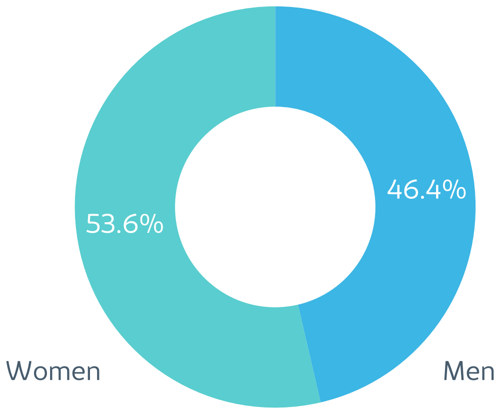
Our employees are at the core of our business strategy. We are aware that they are our most valuable asset. That is why developing a robust talent and merit programme is one of our priorities, as a means of retaining and attracting the best and fostering an inclusive culture that allows employees to realise their full potential.

Shaping the future together.

The novobanco Group is aware that good results come from an organisational culture that promotes and values diversity as a strategic lever for transformation, innovation and growth, and that encourages an inclusive environment that allows its employees to fully realise their potential. The Human Capital Agenda is therefore one of the fundamental pillars of the bank's strategic plan which, based on solid governance policies and guiding principles, aims to respond to five major challenges:

Attracting and retaining talent

Caring for safety, health and well-being at work	Addressing internal social responsibility needs
Promoting gender equality, equal opportunities and respect for diversity	Promoting the conciliation of professional, personal and family life



4 193 EMPLOYEES

2 249 WOMEN

1 944 MEN

To implement our human capital strategy, we seek to follow the best fair-process practices in decision-making, focusing not only on results, but also deploying a fair and reasoned process with strong engagement of the employees, in order to deliver results. We thus endeavour to be aware of the needs and difficulties experienced by employees throughout their life cycle and to meet their expectations, so as to contribute to their full development, and allow them to fully unlock their potential and maintain their motivation.

In a context where remote working assumes a prominent role in the day-to-day life of the organisation, listening to and maintaining regular communication with the employees is essential.

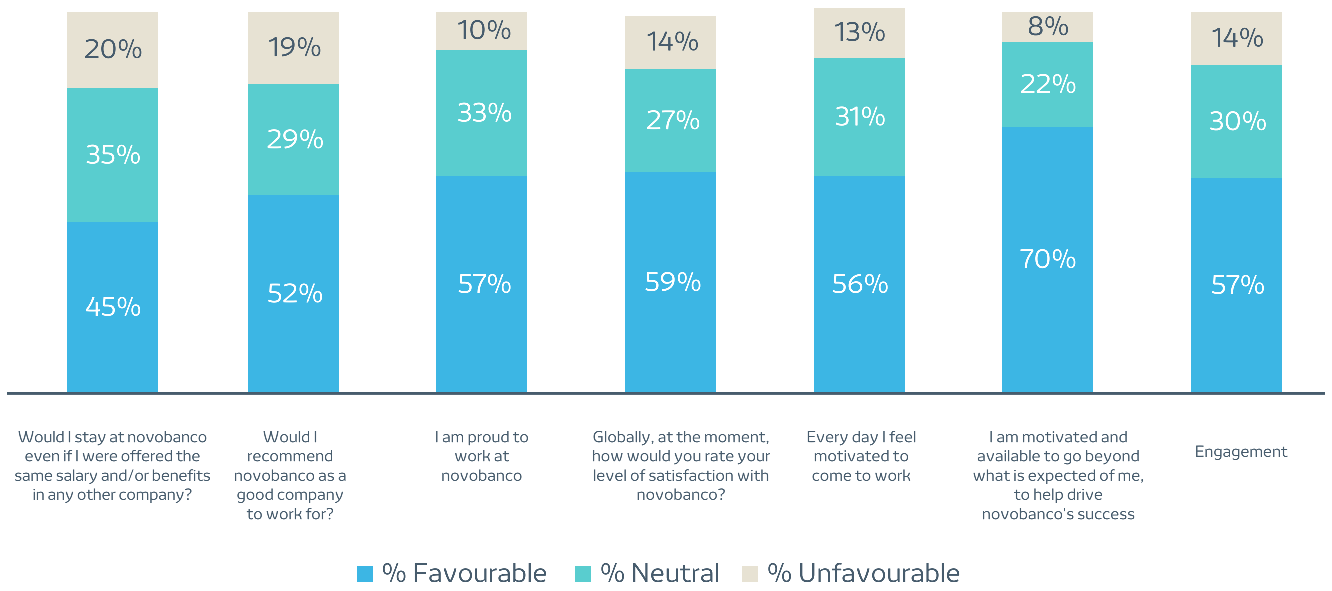
novobanco therefore developed a regular, open, transparent and two-way communication from the beginning and throughout the pandemic period based on internal communication platforms that are agile, modern, efficient and collaborative. In addition to the Somos novobanco intranet, a privileged channel to provide news, documents, forms and links to other internal platforms, we also highlight the Yammer internal social network, which has the role of promoter of a digital community where all employees, regardless of their function or geographical location, share their interests, doubts, projects, achievements, challenges and mutual help.

Throughout 2021, 30 events on strategic topics for the organisation were also organised, with live broadcast. The new distribution model, innovative digital solutions and the bank's medium-term strategy were some of the topics addressed.

These events were well attended and provided an opportunity not only to inform about the activity and strategy of the bank, but also to generate open exchanges of information throughout the organization with Q&A sessions.

In the context of the Covid-19 pandemic, and in order to bring together the teams that were in hybrid working mode, the bank organised a 100% digital meeting in which, for the first time in its history, all employees were called to participate. The meeting brought together more than 3,000 employees and had a very positive assessment, with a satisfaction rate of 84%.

ENGAGEMENT SURVEY



Every six months we conduct an Engagement Survey, one of the main tools to sound the organisational climate of the bank, - which had a participation rate of around 82% -, as well as an Internal Customer Satisfaction Survey and a Psychosocial Risk Questionnaire.

At novobanco dos Açores, the employee engagement favourability rate stood at 53% in 2021, up by 10 p.p. on the results of the survey conducted in October 2020.

As regards the Net Promoter Score, there was also an improvement of around 8 p.p. in the number of promoters. Notwithstanding the large investment still to be made in this area, the evolution already reflects the results of the various initiatives that have been developed in various dimensions and that have allowed employees to feel novobanco dos Açores as their second home.

At Banco Best, the employee engagement favourability rate was 77%, up by 4 p.p. compared to the results of the survey conducted in February 2021 and by 19 p.p. when compared to the results of the first survey, carried out in 2018. In the Net Promoter Score, the number of promoters is now 20, having increased by 12 since February, which places Banco Best at the level of finetuning. The positive evolution in 2021 was due to a strong involvement with employees, namely through:

- Collection of ideas from all employees;
- Creation of 4 working groups for the translation and implementation of feasible initiatives;
- Improved cooperation between divisions;
- Greater clarity in division communication with the teams (regular meetings instituted);
- Regular meetings of Management with the entire Bank to present results and clarify the strategy, with the possibility of questions being asked.
- Better dissemination of initiatives and measures aimed at the employees on the website (Best ON)

2021 will be marked as a turning point and the year of the rebranding of novobanco, a rebranding process in which the employees actively participated both in its construction and in its internal and external promotion, by playing as actors in brand campaigns.

WE CREATED OUR BRAND
WITH THE VOICE OF OUR EMPLOYEES

The process of creating the novobanco brand was centred on the employees. The new image of the novobanco Group was born from a collaborative process, unheard of worldwide. The creation of the brand's visual identity involved the development of an app in which the employees recorded their voice. The graphic representation of the individual voice waves was put through a mathematical and digital model, resulting in a collective voice wave that represents the voices of those who, on a daily basis, are the most important component of the group's relationship with its clients. The brand was thus born with a purpose of unity and collaboration.

The brand, born from the voice of the employees, was unveiled first-hand at a live event that brought together all the employees for the first time, for which the bank set up the conditions for everyone to watch it as a team. So that employees who were unable to travel to Lisbon could also experience this moment live and as a team, "audiences" were created in 7 branches throughout the country, as well as in the branches abroad.

4.2.1 Attracting talent and merit

Attracting and retaining talent continues to be one of our major objectives. To this end we have in place a set of means and initiatives not only to capture new talent but also to retain existing talent from within the personal and professional development of all its employees, which are deployed under a 4-stage model:

1
CAPTURE OF TALENT

Responding to the recruitment and rejuvenation needs of the bank's staff while at the same time enabling young students to acquire new skills that will enrich their curriculum and expand their contact network.

→ **Talent Attracts Talent Programme** - the third edition of this programme hosted 50 young graduates, who were distributed by 22 departments (front-office and central), in a professional internship model with a duration of 6 and 12 months respectively. At the end of the programme, 13 young people were integrated into the bank's staff.

→ **novobanco UP Programme** - a programme for young university students with the duration of one month. In the 2021 edition, between July and September, a total of 92 participants attended this programme, taking the opportunity to have an approach to active life and paid professional experience during the summer.

2 INTERNAL MOBILITY	Internal mobility encourages the career development of each employee throughout their professional career. To this end one of the group's instruments is a programme that enhances its human capital and enables its employees to embrace new challenges and opportunities for individual development and progress. In 2020, 113 employees decided to take their professional path in hand, and of these 18 were given the opportunity to change their jobs. This contributed to the development of a more motivating work environment as well as to retain talent.
3 PERFORMANCE ASSESSMENT	Assessment covering all the employees is carried out through the Employee Portal (called "My Portal"), which includes a personal development programme where each employee can define their objectives in terms of continuous improvement in the performance of their functions. Performance Assessment, carried out annually, focuses on two aspects: 1. fulfilment of objectives; 2. skills and behaviour observed (general, specific and technical). It is an important tool in the alignment between the organisational strategy and the performance of each employee/team, supporting a constructive and continuous dialogue between each Employee and his or her line manager. "My Portal" is also available on the AppRH (human resources App), a new intuitive mobile tool that facilitates and speeds up the access to employees through their smartphone.
4 TRAINING	Being attentive to the knowledge and competencies that employees need at any given moment and promoting their continuous development, in order to guarantee the skills that are essential for the achievement of the objectives that the Group has set to reach. Providing training solutions that enhance the contribution of the employees, continuing to invest consistently in the design and adoption of distinctive and motivating training, enabling the improvement of performances, and the development and evolution of novobanco's employees.

Training

In order to guarantee adequate training, in 2021 we invested around €754.2 thousand and provided a total of 179.3 thousand hours of training, focusing in particular on five areas of knowledge:

- **Training on the New Distribution Model**
  novobanco decided to transform its attention model, not only the visual aspect of its branch spaces, but above all in the new way our employees receive and treat our clients. In 2021, 859 employees from 105 branches received 23,500 hours of on-site training on the new customer service choreography, the new spaces, the new applications and the new equipment adopted.
- **Legally Mandatory Training**
  This is the indispensable knowledge that all our professionals, each in their different jobs, must have in order to perform their functions correctly. We provided 136,762 hours of e-learning training, involving 4,100 employees. These training initiatives mainly focused on the Markets and Financial Instruments Directive (MiFID II), the IDD - New Insurance and Reinsurance Distribution Law, the Mortgage Credit Marketing Directive, the Prevention of Money Laundering and Terrorist Financing, the General Data Protection Regulation, and Information Security.

WE PROVIDED 14 ESG TRAINING HOURS PER EMPLOYEE

- **Training on Sustainability**
  In 2021, due to the strategic importance of the topic, it was decided to invest in training on Sustainability in the financial sector, which covered 2.5 thousand employees, who completed a total of 58.6 thousand hours of training.
- **Training provided by the network of 17 School Branches and by the Human Capital Department Team that coordinates the School Branch**
  At novobanco, on-the-job training is also provided by the network of 17 school branches distributed throughout the country. Based on the concept of learning by doing, this is a pioneering project in banking in Portugal, which over the course of 16 years has maintained its scope of action, and is today responsible for the initial training of new employees who go into the retail commercial area, for strengthening the skills of current employees, for the development of appropriate skills to sustain

functional mobility and for monitoring current employees returning from prolonged absences; 69 training programmes were carried out, totalling 2 thousand hours of training.

As part of the project to implement novobanco's New Distribution Model, the School Branch team of the Human Capital Department, which coordinates the network of 17 branches mentioned above, was responsible for training all our professionals who started using the Novobanco Automatic Tellers (VTM) installed in the new branches. One thousand hours of on-site training were provided to 301 employees.

- **Technological Training**
  IT and digital contents are increasingly relevant for organisations, requiring continuous skills updating on the use of the organisation's main IT tools and in the technological solutions adopted by the entire business. In 2021 we provided 2.5 thousand hours of technological training to 114 employees.

In 2021 we provided an average of 42.8 hours of training per employee.

4.2.2 Gender equality, equal opportunities and inclusion

Gender equality, equal opportunities and inclusion are all topics that remain on the novobanco Group agenda. We continue to consolidate the bases for long-term sustainability, and therefore measures to promote inclusion and equality remain strategic, with greater attention being paid to decision-making and management positions.

In 2021, the following initiatives stand out:

- **Subscription of the Target Gender Equality programme –** with the aim of strengthening and accelerating our journey towards gender equality in leadership.
- **#Equal Gender Programme -** quarterly monitoring of 3 gender equality indicators with a quarterly report to the bank's CEO.
- **Internal Report on Gender Equality -** gender-sensitive monitoring of several human capital management processes (admissions, departures, performance assessment, distribution of each functional group, professional training, use of benefits to conciliate personal and professional life, among others).
- **Active participation in the iGen Forum for Gender Equality –** with the objective of promoting gender balance, this is a forum for sharing successful practices that catalyse performance in order to achieve the established goals.
- **Participation in NOVA SBE's Inclusive Community Forum -** signature of a commitment to Inclusion, addressing the lives of people with disabilities and aiming to promote a more inclusive community.

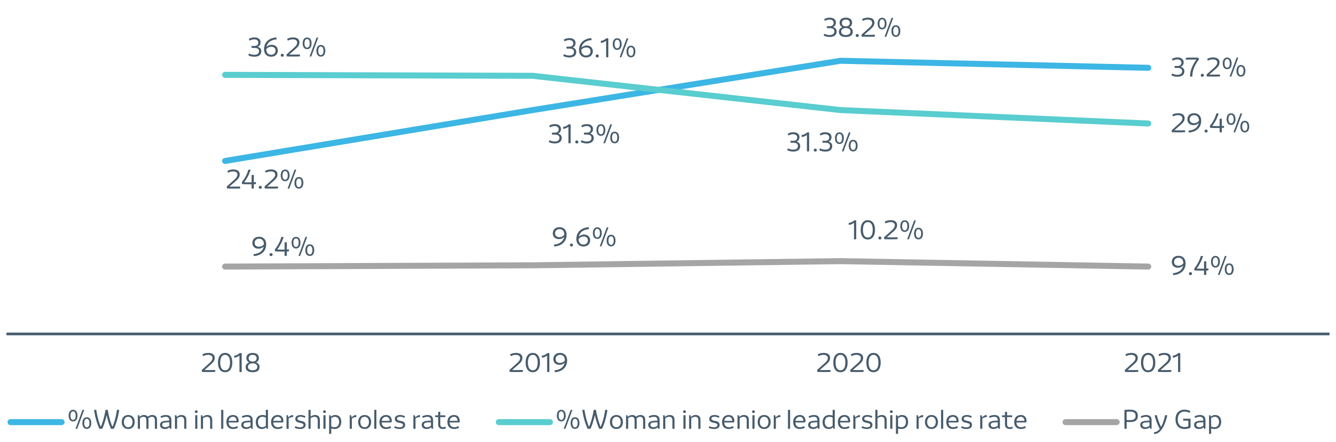
In 2021, the representation of the female gender in the management staff of Novobanco was 37.2%, a slight decrease compared with 2020 that resulted from intra-group reorganisation moves.

novobanco Gender Equality - (under-represented gender %)	2021	2020	21 vs20
First-line management	29.4%	31.3%	-1.9 p.p.
Management staff	37.2%	38.2%	-1.0 p.p.
Pay gap	9.4%	10.2%	- 1.3 p.p.

Given the importance of this topic, gender equality is part of the novobanco Social Dividend model, a model of commitment to give back value to the community and the employees. The model comprises four programmes, one of which, # Equal Gender, measures and sets targets for three indicators: percentage of women in first-line positions, percentage of women in management positions and gender pay gap.

Inclusion is one of the basic principles of human resources management at novobanco.

SOCIAL DIVIDEND - EQUAL GENDER



2.5% of the bank's staff are people with a certified disability or impairment, which is more than provided for in Law No. 4/2019, which establishes the system of employment quotas for people with disabilities.

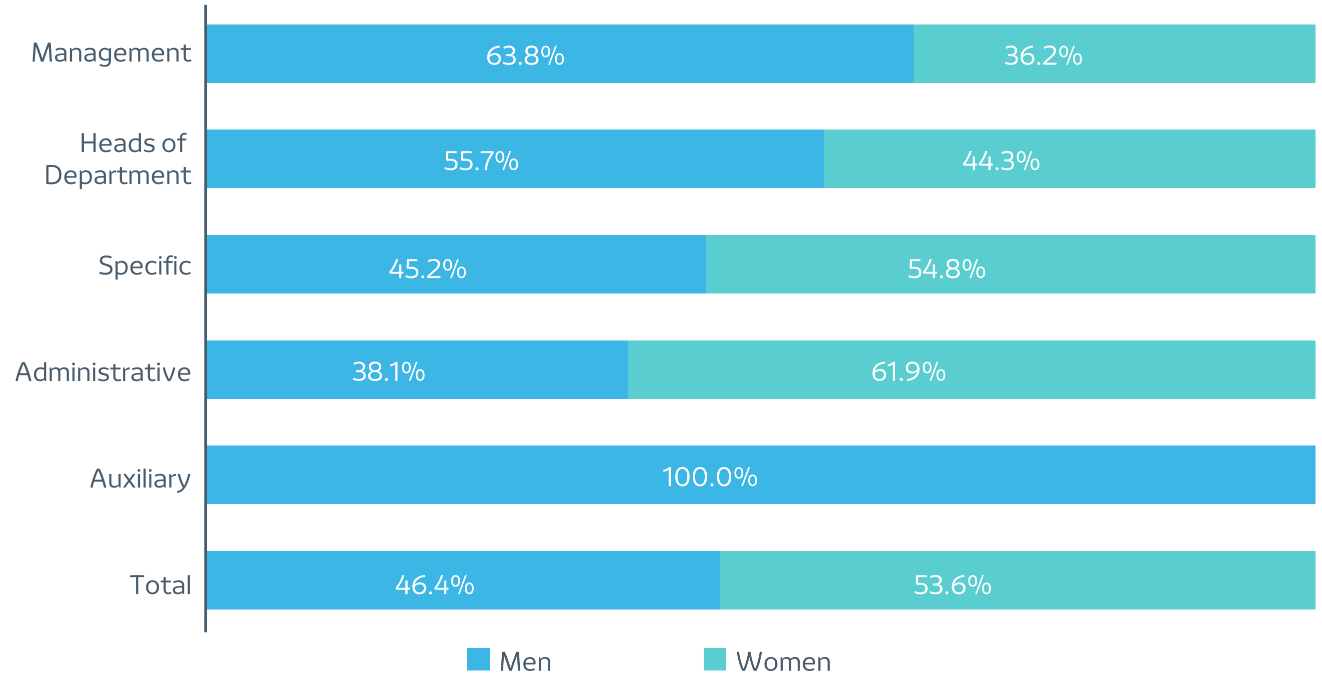
To address issues such as equality of gender and opportunities, diversity and respect for freedom of association, as well as to repudiate forced and child labour, discrimination, any form of harassment and, in general, to ensure respect for the employee as a person, the relationship of novobanco Group with all its employees is based on two fundamental policies:

- Human Rights Policy
- Equality and Non-discrimination Policy;

Both policies were defined based on:

- the United Nations Global Compact Principles;
- the Universal Declaration of Human Rights;
- The Guidelines of the Organization for Economic Cooperation and Development (OECD) for Multinational Enterprises;
- European and National Legislation on Gender Equality and Harassment prevention.

PROFESSIONAL CATEGORY BY GENDER (%)



4.2.3 Work-life balance and Internal Social Responsibility

At novobanco we believe that the balance between employees' professional, personal and family life is crucial to foster motivation, productivity, satisfaction, responsibility and a relationship of commitment to the bank. On this basis, the management of our human capital is supported by instruments that aim to enhance the employees' well-being at all levels.

Integrated in the Social Dividend Model, the #Work & Life programme consists of a set of five measures that, by promoting flexibility at work, improve the conciliation of work with the personal and family life of our employees. This programme is also an instrument to attract and retain talent. Although the Social Dividend Model was implemented within novobanco, gradually the measures of the Work&life programme were extended to the companies of the novobanco group.

These measures are the following:

- Leave on special dates (Employee's birthday; children's birthday; 1st day of school of children in compulsory school years).
- Purchase of holidays
- Home Office
- Early Friday or Late Monday
- TakeAway

This support aims to strengthen the employees' sense of belonging and pride in the group, their personal satisfaction, as well as enabling savings in their monthly budget. These benefits, attributed within the scope of the internal social responsibility programme, take the form of several initiatives.

- Education support for children of active employees
- Special conditions on the commercial offer
- Christmas presents for employees and their children and dependent stepchildren
- Specific pandemic-related support

By the end of 2021 we had allocated 830.7 thousand euros in support to 781 employees.

In 2021, due to the lingering pandemic context, novobanco relaunched the package of special benefits to tackle possible financial needs felt by families, in addition to access to loan moratoria that had already been guaranteed. The bank also rewarded the employees who were on the front line in the response to the pandemic emergency in 2020, granting 2 days of additional leave that they could take during the year.

The employees, both active and retired, also have three canteens at their disposal where they can have lunch and order take-away meals. These canteens serve low-cost nutritionally balanced meals, with 3 to 4 options to choose from each day, each coming with a nutrient information sheet (nutrition traffic light). In addition to providing free lunch, the aim is also to encourage the employees to make responsible choices in terms of healthy eating. Awareness-raising initiatives sometimes also take place in the canteen areas. Despite the significant increase in teleworking, the Bank maintained its canteens and bars in full operation, and increased the take-away component, all in full compliance with the social distancing and hygiene rules imposed under Covid-19. A home delivery service was also made available for employees teleworking who lived close to two of the canteens.

4.2.4 Looking after the Safety, Health and Well-being of our employees

The holistic well-being (physical, psychological and social, ...) of its employees is essential for the development and success of the group's activity, which to this end has in place a health and well-being policy based on five lines of action:

1	**Communicate and raise awareness:** enhancing continuous and relevant communication about the Bank's path and strategy, as well as providing contents in various formats about health and well-being, encouraging employees to make conscious and healthy choices.
2	**Diagnose and prevent:** risk situations in a timely manner, so as to act preventively.
3	**Foster and promote:** moments of focus on certain topics to increase employee involvement and accelerate positive results.
4	**Offer and provide:** benefits aligned with best practices in healthy habits that contribute positively to the holistic well-being of employees.
5	**Reconcile and flexibilise**: practices for a balance between professional, personal and family life.

We are always attentive

As a result of the pandemic context, we created a new employee support package, with the following benefits:

- → Possibility to bring forward the payment of 50% of the Christmas bonus,
- → Loans with special conditions to meet the needs for computer equipment and training,
- → Family coaching sessions and psychological support (free of charge).

During 2021, an attempt was always made to establish normality despite the pandemic context. The activities that had been suspended were resumed and adjusted to this situation. The employees' General and Family Medicine, Psychology, Psychiatry and Nutrition consultations alternated between face-to-face and remote, according to the evolution of the pandemic and the employees' preference. The same occurred with occupational health consultations. The clinical posts that offer a set of services in privileged conditions to the employees, both preventive and curative, were always in operation. In terms of Occupational Medicine, there was a great additional focus on catching up the regular medical examinations that had been suspended between April and August 2020 on the recommendation of the General Health Directorate (DGS).

The well-being programme called "My B Side" (B for Bem-estar, or Well-being in Portuguese) remained active in virtual format. This programme aims to provide holistic well-being to employees, based on a set of initiatives that we call "well-being experiences", which address 8 dimensions: health, food, physical exercise, emotional management, family and home, Interpersonal Relations, Personal Image, and culture and leisure. A series of workshops, ateliers, conversations with experts, and lectures on these themes were provided in virtual format.

In order to ensure an adequate response to the real needs of the employees, in early 2021 an evaluation of Psychosocial Risks was carried out, which allowed identifying the impact of the pandemic at this level, by comparison with the results obtained in the evaluation carried out in early 2020 (pre-pandemic). There was a concern to align the topics covered in the "My Side B" Programme with that feedback and with the pandemic context experienced, as well as to maintain the dynamics and periodicity of the experiences, bringing the teleworking employees closer to the bank and thus offsetting the decrease in personal interaction.

In the area of occupational safety, and considering the specific context of the pandemic, the group conducted audits of its central buildings, which concentrate most of its employees, the canteens and some branches, in order to check that the procedures and practices put in place in the context of the Covid-19 pandemic were being followed. At the same time, the assessment of risks related to the working condition and the functions performed was continued.

In this context, at the end of 2021, the employees were also consulted about the Health and Safety at Work.

4.3 OUR SUPPLIERS

We select our suppliers with a responsible attitude and based on ESG criteria. The start of the selection process is marked by our full availability to receive all presentations and proposals from the most varied entities that wish to provide services or supply goods.

Shaping the future together.

The management of a sustainable business covers the entire value chain of novobanco Group, including its suppliers. As a relevant buyer of products and services in the market, novobanco has set up a supplier relationship model (around €188 million invoiced to novobanco in 2021)[11], which is based on a commitment to follow good practices and internationally agreed principles. This model, which is based on the recognition of the importance of the economic, environmental and social impacts produced by this group of stakeholders, is based on two main pillars:

1. **Code of conduct,** which determines that the process of supplier evaluation and selection is strict and carried out in accordance with the highest standards of transparency and ethics;
2. The **Supplier Relationship Principles** are aligned with the OECD guidelines for multinational companies and the United Nations Global Compact, setting the minimum requirements, not only for suppliers but also for the Bank, with regard to business practices, health and safety at work, ethics and environmental management. novobanco Group's suppliers are invited to subscribe to these principles, which imply the adoption of consistent conduct, namely with regard to the environment, employment conditions and ethics.

The quality of the information collected through novobanco Group's supplier portal permits to select the best propositions, i.e., those from the suppliers best able to satisfy the needs and requirements associated with the acquisition of goods/services. In 2021 the degree of suppliers' coverage, in terms of billing, that had completed their registration or were in the process of registering (pre-registered) in the Portal was 91%.

For a more rigorous selection of this group of Stakeholders and based on the information provided, novobanco calculates the "sustainability scoring", which takes into account ethical, labour, hygiene and safety at work, and environmental aspects. Around 22% of novobanco's suppliers registered in the Portal have a score of excellent and 84% have a positive score cumulatively, which is better than in 2020. Maintaining a professional relationship with suppliers also implies responsible action, namely guaranteeing and practising payment periods of 30 days, in line with good market practices. This includes giving suppliers access to their current account, free of charge and at all times, simply

11 Recurrent suppliers to novobanco Group with annual turnover above 10 thousand euros.

Supplier Relationship Principles

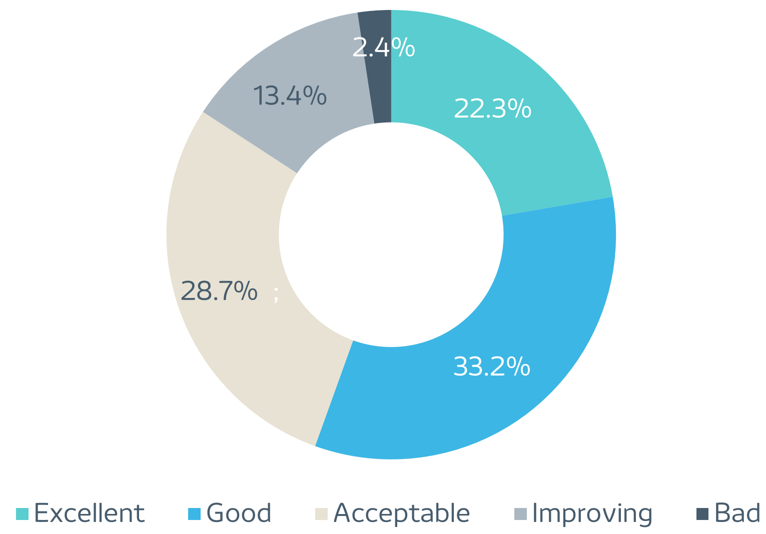
Govern the selection of suppliers with:

- **Fairness** - equal treatment, without privileges or cronyism, and always seeking to avoid conflicts of interest;
- **Transparency and Ethics** - adequate disclosure of information;
- **Quality and Efficiency** - as criteria for selecting the best suppliers.

novobanco Group Supplier Portal

This is our privileged channel for the presentation and logging of current and potential suppliers. In addition to providing the prime sourcing basis for market consultation processes, the database of registered entities allows for an easier and faster detection, assessment and comparison of the suppliers' characteristics, technical skills and commercial propositions.

SUSTAINABILITY SCORE
(%)



by logging into the supplier's account on the Supplier Portal. In 2021, given the persistence of the Covid-19 context, the bank reduced its the payment period to suppliers to 20 days, from 22 days in 2020. Focusing on the national economy, the bank maintained its preference, whenever possible, for national and local suppliers, and in 2021, 91% of our purchases were made from Portuguese suppliers

85% OF THE NEW DISTRIBUTION MODEL SUPPLIERS ARE PORTUGUESE

In 2021, the bank started to roll out its New Distribution Model, in which our aim was to change and innovate, offering our current and new customers a totally differentiating and unique experience in the financial sector, and transforming our branch network into spaces where the financial experience is not limited to a simple visit to the bank.

We ended the year with 107 totally revamped branches, in which:

- We clearly promoted national products, and executed this project with national suppliers - 85% of the suppliers were Portuguese companies with 100% national capital;
- We selected suppliers that could attest that they developed their business based on sustainability criteria, proven by environmental certifications, and presenting a sustainability score of around 82%.

4.4 THE REDUCTION IN OUR DIRECT ENVIRONMENTAL IMPACT

We are reducing our environmental impact. The Covid-19 pandemic had a strong impact, with the remote working of our central departments' employees contributing significantly to this result. But we want to maintain this trajectory, and therefore we are developing new measures that will contribute to keep us on this path.

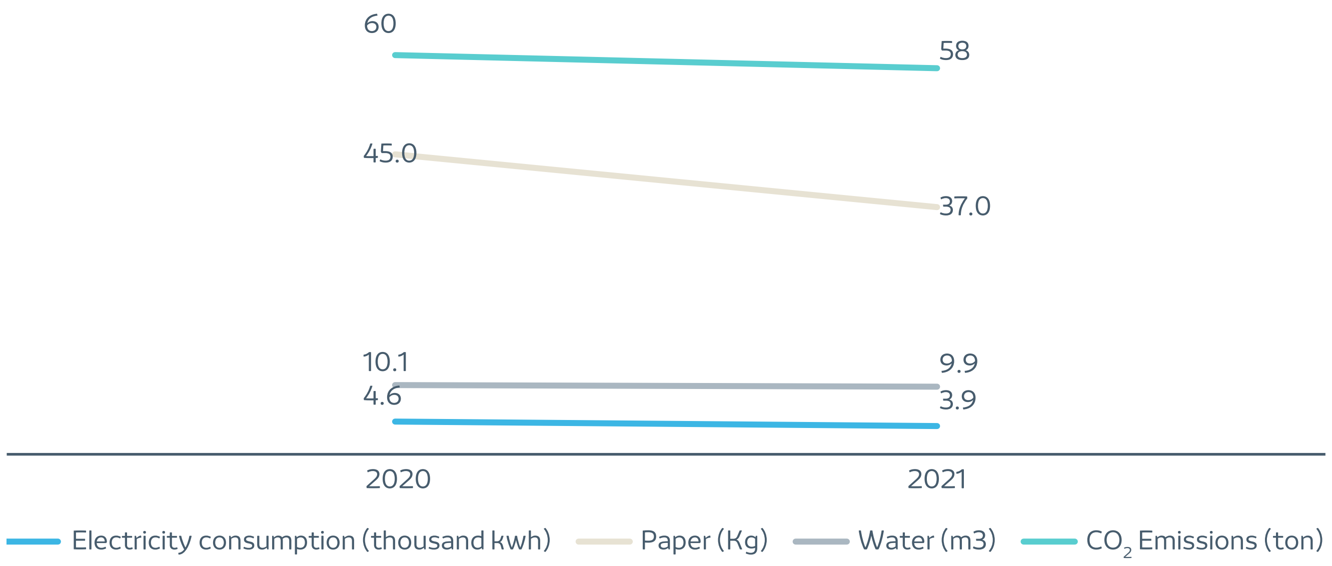
Shaping the future together.

The novobanco Group's operations directly impact the environment. Therefore, one of the strategic concerns for the group's management is to find tools that enable the rational and adequate use of the resources necessary for the development of its activity.

We recognise that employees working from home create waste and consume electricity, water and paper that were previously consumed in the offices, and that this helped us to reduce our indirect impact on the environment in 2021. But we are also aware that this situation will change, and despite the fact that many employees of the central departments' are still working remotely (home office), we are assessing the various scenarios for a normal, or at least partial, return to the group's central buildings, considering initiatives to prevent negative impacts on the environment, and seeking to maintain or improve our consumption, mainly of electricity and paper.

We have redefined our objectives for 2022-2024 and we will develop the necessary initiatives to successfully achieve our goals.

CONSUMPTIONS PER EMPLOYEE



SCOPE 1 AND 2 EMISSIONS DECREASED

18.5%

WE EMITTED 2 599 TONNES LESS OF CO_2

- Reduced electricity consumption
- Green electricity consumption (free of CO_2 emissions) at novobanco since November 2021
- Fewer emissions from traveling on business trips by plane and company fleet.

ELECTRICITY CONSUMPTION DECREASED

23.1%

WE CONSUMED 4.9 TONNES KWH LESS OF ELECTRICITY

- The equipment and lighting used in the New Distribution Model are energy efficient.
- Use of led lighting in practically all installations

PHOTOCOPY PAPER CONSUMPTION DECREASED

25.5%

WE CONSUMED 53 TONNES LESS PHOTOCOPY PAPER

- We fostered a "paperless" culture by reinforcing dematerialisation processes, namely formalisation with digital signatures (Phygital project), and by reducing printing in the various back-office activities.
- 90% of the obligatory communications to clients are digital. novobanco sends most other banking documents to its clients in digital format (account and credit card statements, deposit certificates, account entry notices, statements of securities and investment funds' portfolio movements and positions, entry notices, integrated billing notices, and sundry notices).

WATER CONSUMPTION DECREASED

11.6%

WE CONSUMED 5.4 THOUSAND M³ LESS WATER

- Use of timer taps
- Installation of water-flow reduction filters

WE SENT MORE PAPER AND CARDBOARD FOR RECYCLING

9.7%

- We recycled around 117.4 tonnes of paper and 66.3 tonnes of cardboard
- We sent 5.948 toners for recycling (programme in partnership with Lexmark)

Since November 2021, novobanco is consuming green electricity, from renewable sources, in all its buildings and branches where this option is available (more than 95% of its facilities), and this measure has been certified by its electricity supplier.

This is one of the initiatives under the commitment to reduce scope 2 CO2, which proves the bank's real commitment in the transition to a low carbon economy and full alignment with its material SDG - SDG13.

IN NOVEMBER 2021, NOVOBANCO STARTED CONSUMING GREEN ELECTRICITY, FREE OF CO_2 EMISSIONS

In 2020, novobanco started its Phygital project, whereby some of the business processes are being dematerialised and formalised through a digital signature, thus contributing to a paperless organisation with a paperless culture. In 2019 and 2020, the pilot years of the project, the bank saved 0.21 tonnes of paper. In 2021, the first year of the phygital rollout, this project allowed the bank to avoid the consumption of 13.5 tonnes of paper and 14 million litres of water otherwise used in its production. It is the Bank's expectation that by 2024 the Phygital project will have avoided a cumulative consumption of around 147.4 tonnes of paper (minus 154.2 million litres of water per year).

WE AVOIDED THE CONSUMPTION OF 13.5 TONNES OF PAPER WITH THE PHYIGITAL PROJECT

4.5 COMMUNITY

Concerns with social, cultural and financial literacy initiatives on behalf of the community have always marked the group's actions.

Over the years we have taken an active role in the community, which we want to be help thrive in a sustainable and just way.

Shaping the future together.

novobanco is an active agent in the ecosystem to which it belongs, with a particular focus on "reviving the economy" and supporting the communities it serves.

This support to the business fabric, and in particular to exporting companies, was evident in the promotion of events such as "Portugal Exportador", a meeting for sharing best exporting practices, and also with the "Export and Internationalisation Awards", which aim to recognise the best exporting companies as well as the best internationalisation experiences of Portuguese companies.

Also noteworthy is the "Portugal que Faz" initiative which, in a partnership with Dinheiro Vivo (JN/ DN/ TSF), promoted 8 events throughout the year, in several regions of the country, with the representative associations of each region and/or sector and local entrepreneurs, with the aim of discussing and finding joint answers to the needs, challenges and opportunities of the different regions and of companies and entrepreneurs in the post-pandemic.

Under the slogan "The economy is all of us", the bank once again put its experience and knowledge at the service of the key players and decision-makers of the economic future of the country and shared with its clients and society in general, specialised and technical information, which it considered could support decision-making in the pandemic context and in the preparation for the post-Covid.

WE ACHIEVED 210 POINTS OUT OF THE 200 POINTS SET AS A TARGET IN 2017

4.5.1 Social Dividend

In 2017 the bank designed a new Corporate Social Responsibility (CSR) programme and concept, creating the Social Dividend assessment model, a reciprocity commitment assumed before society and its employees. This model is a reference in the field, comprising four programmes with specific objectives.

NB EQUAL GENDER

Aims to ensure a better gender balance, in line with the customer base, the available talent and a global meritocracy principle. Currently, novobanco has already achieved gender parity in the total number of employees.

NB WORK & LIFE

Aims to reinforce practices that facilitate conciliation between the demands of professional life and the needs of personal/family life, promoting employees' well-being.

NB ENVIRONMENT

Aims to minimise the environmental impacts resulting from its activity.

NB SOCIAL RESPONSIBILITY

Aims to support the community through a range of solutions to important issues in the communities it serves.

In the 5 years of monitoring of this model, several initiatives of the 4 programmes were very successful, having exceeded their objectives. Positive highlights include: employee leaves on special days, half-day leave - early Friday/late Monday, takeaway meals in the NB Work&Life programme, the growth of digital communication with the clients, and the reduction of electricity and paper consumption under the NB Environment programme.

WE GAVE BACK MORE THAN €1.6 MILLION IN DONATIONS TO THE COMMUNITY

In 2021 and taking into account the current context, novobanco's social responsibility programme was developed in 4 pillars. Solidarity actions directly related to health were added, which once again sought to make the best contribution to society in the current adverse pandemic context, and to cooperate through various initiatives, with the highest sense of social responsibility.

4.5.2 Social and health patronage

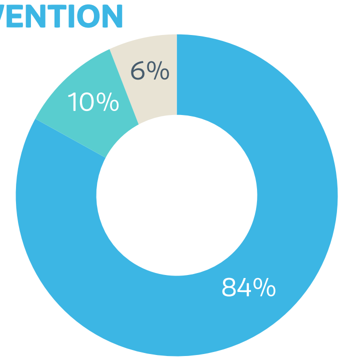
Helping organisations that are active in social support in diverse areas such as fighting poverty, social exclusion and health, among others, is the tagline of the novobanco Solidarity Programme.

novobanco assumes its responsibility in supporting the most destitute communities, whether the needs are social, emotional or cultural, and regardless of their cause.

The bank works in partnership with social solidarity institutions with the aim of mitigating these inequalities through various initiatives, among which the following stand out:

Social Patronage	**Cultural Patronage**	**Educational and research Patronage**	**Patronage for health**

DONATIONS/AREA OF INTERVENTION
(%)



Solidarity Cultural patronage Education and Investigation

Global Response to Covid-19

novobanco joined the initiative "Global Response to Covid-19", with a donation of 500 thousand euros to accelerate the development, production and equitable access to vaccines, diagnostics and treatments for Covid-19. novobanco directed its donation to the WHO Foundation, an independent global health foundation that collaborates directly with the World Health Organization. The bank's donations went towards the distribution of vaccines in developing countries.

All Together ("Todos Juntos")

This initiative brought together 10 banks from the Portuguese financial system and more than 30 companies to support families in need. Under the motto #TodosJuntos (All Together), the initiative raised more than 2.5 million euros to provide immediate help to the most vulnerable people and families in the context of the crisis caused by the pandemic. The total amount raised allowed the purchase of basic foodstuffs (milk, cereals, rice, olive oil, beans, pasta, tuna, etc.), with 20% going towards supporting families' medicine needs.

The distribution of goods was carried out by the Food Emergency Network, an initiative launched by ENTRAJUDA, coordinated by the Food Banks and involving around 2,700 institutions and entities throughout the country, ensuring a desirable diversity of beneficiaries and national distribution (mainland and autonomous regions).

Collection of goods in the auditoriums of novobanco's Masters Branches

For Christmas 2021, novobanco wanted to be closer to the community where it develops its activity. Bringing together the solidarity of employees and clients in a single initiative, novobanco made its Master branches from north to south of the country available to collect food, clothing and toys for 10 local Private Social Solidarity Institutions (IPSS) that are customers of novobanco.

novobanco employees' Christmas Constellation

The Christmas festivities at novobanco Group start with the usual internal solidarity action. After a selection process open to all employees, the initiative promoted by Make-a-Wish was selected. Under the motto "let's build the biggest Christmas constellation", in six hours the employees donated the necessary amount to fulfil the wish of a sick child or young person. The wave of internal solidarity, which the Bank joined, made three wishes come true.

Quality of Life Action

novobanco was once again present in the Quality-of-Life Action of the Associação Salvador, an IPSS that operates in the area of motor disability, which already has 14 editions. In 2021, 43 people with reduced mobility (from a total of 75 applications received) were supported with a total amount of approximately 130 thousand euros, in three categories - home works, training and employment, and adapted sports equipment. novobanco is a patron of Associação Salvador and has been associated with this project since its first edition, which over 14 years has supported more than 500 people with reduced mobility with more than 1.5 million euros.

Acreditar

Novobanco annually finances one of the 12 rooms of the Acreditar Association's home in Lisbon. The Acreditar Association is an IPSS whose mission is to "treat children and young people with cancer and not only the cancer in children and young people", promoting their quality of life and that of their families. By financing one of the rooms of the Lisbon home, referenced by the hospital Social Service, we annually enable several children who have to leave their area of residence for oncological treatment in Lisbon to live with their family.

4.5.3 Cultural Patronage

Even in the context of a pandemic, novobanco pursued its strategy of cultural patronage, namely focusing on its novobanco Cultura programme, under which it lent works from its paintings collection to various Museums. In 2021, the bank lent 16 works, increasing to 93 the number of its works now on permanent exhibition in 36 Museums around the country. The bank also publishes in its platform a road map to various regions and museums in the country, where the works of the novobanco Painting Collection can be visited.

The novobanco Photography Collection with about 1,000 emblematic works from all over the world, by more than 300 artists from 38 nationalities, is one of the most important photography collections in the world and the only corporate collection representing Portugal.

In 2021, the photography collection in partnership with the Faro Museum launched the exhibition catalogue "Território Solar" (Solar Territory) with works from the collection. The Collection is represented at the Nova SBE University campus in Carcavelos with an exhibition of works the artist Vik Muniz, who portrays national personalities of international dimension such as José Saramago, Amália Rodrigues and Cristiano Ronaldo.

In order to innovate and foster engagement with society and proximity with the clients and the local communities all over the country, the bank developed a project in partnership with Valter Vinagre, a renowned Portuguese artist included in the photography collection, to decorate 17 branches of the commercial network with 31 reproductions of his photographic works, thus taking to its branch network another dimension, the art of contemporary photography.

In 2021, as a founding member of the IACCCA International Association of Corporate Collections of Contemporary Art, which brings together curators of more than 50 corporate collections from around the world and represents more than 150,000 works of art, the bank's photography collection joins the project to develop the catalogue "Art in Time of Ecological Disruption". Once again novobanco's photography collection stands out, ranking second in the number of works and texts selected to integrate this catalogue, to be published in 2022.

4.5.4 Educational Patronage

With the creation of the Financial Literacy Programme, novobanco assumes its role as an institution that bases its positioning and management on principles of sustainability and corporate citizenship, contributing to train a new generation of consumers of financial services that is increasingly informed and has greater power of analysis and decision. In this context, the bank's financial literacy intervention is based on 4 pillars:

FINANCIAL LITERACY PROGRAMME

DIGITAL LITERACY PROGRAMME WITH THE APB (PORTUGUESE BANKING ASSOCIATION)	PEDAGOGICAL PROCESS PORTUGUESE MATHEMATICS OLYMPIADS	COMMERCIAL OFFER	PERSONAL FINANCE AND FAMILY BUDGET
Digital Financial Education Project of the Portuguese Banking Association (APB) and its members that promotes clarification sessions on the basics of using the banks' digital channels to carry out essential day-to-day operations, aimed at the general public and senior citizens.	Pedagogical project that appeals to the quality of students' reasoning, creativity and imagination. One of the competition's objectives is the early detection of scientific vocations and, in particular, for Mathematics.	Adaptation of savings products to customers' realities, with emphasis on savings products tailored to each person's unique family budget.	Application that makes it easy to monitor and manage the monthly budget at the touch of a finger.

5.0
ESG PERFORMANCE INDICATORS

5.1 Environment
5.2 Social
5.3 Governance

Rui Duarte
South Retail Department - Senior Business Client Manager

5.1 ENVIRONMENT

Environmental Indicators - Materials consumed	2021	2020	21 vs 20
White paper			
Internal use (tonnes)	155.2	208.3	-25.5%
Paper for Internal use (Kg/employee)	37.0	45.0	-18.6%
Forms - printing and finishing area (tonnes)[1]	100.1	112.9	12.8%
IT and electronic consumables			
Toner cartridges (units)[2]	25	25	0.0%
Ink cartridges (units)[2]	16	42	-61.9%
Bands (units)[2]	22.0	1 073.0	-97.9%
DVD/CDRom (units)[2]	820	1 630	-49.7%
Batteries	2 144	2 496	-14.1%
Environmental Indicators - Energy			
Electricity consumption (kWh)	16 296 473.1	21 181 218.0	-23.1%
Total electricity consumption (GJ)	58 667.3	76 252.4	-23.1%
Electricity consumption (kWh/employee)	3 886.6	4 622.7	-15.9%
Diesel[3]			
Generator diesel consumption (litres)[4]	504.2	400.0	26.1%
Generator diesel consumption (GJ)[4]	18.2	14.4	26.1%
Vehicles diesel consumption (litres)	1 620 056.6	1 680 495.6	-3.6%
Vehicles diesel consumption (GJ)	58 244.3	60 417.2	-3.6%
Gasoline			
Vehicles gasoline consumption (litres)	840.0	840.0	0.0%
Vehicles gasoline consumption (GJ)	27.5	27.5	0.0%
Total energy consumption (GJ)	**116 957.3**	**136 711.5**	**-14.4%**
Total energy consumption per employee (GJ)	**27.9**	**29.8**	**-6.5%**
Trips			
Number of vehicles	957	987	-3.0%
Number of flights	517	463	11.7%

1) novobanco
2) novobanco and novobanco dos Açores
3) Diesel consumption is an estimate based on the number of hours generators were operating
4) novobanco, Banco Best and GNBGA

Environmental Indicators - Emissions (tCO_2e)*	2021	2020	21 vs 20
Direct emissions (Scope 1)	**4 313.1**	**4 888.3**	**-11.6%**
Emissions from trips in company cars	4311.8	4 472.6	-3.6%
Emissions from emergency generators	1.3	1.1	18.2%
Emissions from leaks of fluorinated gases **	0	406.6	-
Indirect emissions (Scope 2)* **	**2 937.5**	**4 490.3**	**-34.6%**
Emissions from the production of electricity purchased (market-based method)	2 937.5	4 490.3	-43.6%
Emissions from the production of electricity purchased (Location based method)	2 386.5	3 757.9	-36.5%
Total (Scopes 1 and 2)	**7 250.6**	**9 370.5**	**-22.6%**
Indirect emissions (Scope 3)	**4 184.2**	**4 663.2**	**-10.3%**
Emissions from Employees' business trips, including flights	149.4	186.6	-19.9%
Emissions from employees' home/ work daily trips	3 909.8	4 323.1	-9.6%
Emissions from wastewater treatment	33.5	41.2	-18.7%
Emissions over the life cycle of the paper consumed	76.6	96.4	-20.5%
Emissions from the paper recycling process	3.9	3.6	-9.3%
Emissions from water consumption	11.0	12.4	-11.3%
Total (Scopes 1, 2 and 3)	**11 434.8**	**14 033.8**	**-18.5 %**

*See methodological notes in GRI table.
** 2021 value not yet determined
***Scope 2 calculation by location-based method since 2018 only. The Total (A1+A2) was calculated using the Market-Based approach.

Environmental Indicators - Water consumption	2021	2020	21 vs 20
Water consumption from public supply network (m^3)	41 355.1	46 772.6	-11.6%
Water consumption per employee (m^3/employee)	9.9	10.2	-3.4%

Environmental Indicators - Waste management	2021	2020	21 vs 20
Paper sent for recycling (tonnes)	117.4	106.1	10.7%
Cardboard sent for recycling (tonnes)	66.3	61.3	8.1%
Total Paper and Cardboard	**183.7**	**167.4**	**9.7%**
Toner cartridges sent for recycling (units)	5 944	8 322	-28.6%
Ink cartridges (units)	na	na	-
Bands (units)	na	na	-
DVD/CDRom (units)	na	na	-
Batteries	na	na	-
Total IT and electronic consumables collected (units)	**5 944**	**8 322**	**-28.6%**

5.2 SOCIAL

Employees	2021	2020	21 vs 20
Total	**4 193**	**4 582**	**-8.5%**
Men	1 944	2 159	-10.0%
	46.4%	47.1%	-0.7 p.p.
Women	2 249	2 423	-7.2%
	53.6%	52.9%	-0.7 p.p.

Employee distribution by gender and professional category	2021	2020	21 vs 20
Total	**4 193**	**4 582**	**-8.5%**
Men	1 944	2 159	-10.0%
Women	2 249	2 423	-7.2%
Management			
Total	**472**	**472**	**0.0%**
Men	301	299	0.7%
Weight in total male employees	7.2%	6.5%	0.7 p.p.
Women	171	173	-1.2%
Weight in total female employees	4.1%	3.8%	0.3 p.p.
< 30 years old	2	2	0.0%
30 to 50 years old	292	322	-9.3%
> 50 years old	178	148	20.3%
Heads of Department			
Total	**461**	**513**	**-10.1%**
Men	257	291	-11.7%
Peso no total de colaboradores masculinos	6.1%	6.4%	-0.3 p.p.
Women	204	222	-8.1%
Weight in total female employees	4.9%	4.8%	0.1 p.p.
< 30 years old	0	0	-
30 to 50 years old	346	387	-10.6%
> 50 years old	115	126	-8.7%
Specific			
Total	**1 973**	**2 176**	**90.7%**
Men	891	985	-9.5%
Peso no total de colaboradores masculinos	21.2%	21.5%	-0.3 p.p.
Women	1 082	1 191	-9.2%
Weight in total female employees	25.8%	26.0%	-0.2 p.p.
< 30 years old	111	122	-9.0%
30 to 50 years old	1 459	1 658	-12.0%
> 50 years old	403	396	1.8%

Employee distribution by gender and professional category	2021	2020	21 vs 20
Administrative			
Total	**1 279**	**1 413**	**-9.5%**
Men	487	576	-15.5%
Peso no total de colaboradores masculinos	11.6%	12.6%	-1.0 p.p.
Women	792	837	-5.4%
Weight in total female employees	18.9%	18.3%	0.6 p.p
< 30 years old	61	115	-47.0%
30 to 50 years old	831	865	-3.9%
> 50 years old	387	433	-10.6%
Auxiliary			
Total	**8**	**8**	**0.0%**
Men	8	8	0.0%
Peso no total de colaboradores masculinos	0.2%	0.2%	0.0 p.p.
Women	0	0	-
Weight in total female employees	-	-	-
< 30 years old	0	0	-
30 to 50 years old	4	4	0.0%
> 50 years old	4	4	0.0%

Employment contract	2021	2020	21 vs 20
Total permanent workforce	**4 153**	**4 417**	**-6.0%**
Men	1 929	2 088	-7.6%
Women	2 224	2 329	-4.5%
Total Fixed-term Employees	**40**	**165**	**-75.8%**
Men	15	71	-78.9%
Women	25	94	-73.4%
Total	**4 193**	**4 582**	**-8.5%**
Men	1 944	2 159	-10.0%
Women	2 249	2 423	-7.2%

Staff Turnover (%)	2021	2020	21 vs 20
Total	**6.2%**	**7.3%**	**-0.9 p.p.**
Men	3.5%	4.1%	-0.6 p.p.
Women	2.7%	3.2%	-0.5 p.p.
Age bracket			
< 30 years old	1.1%	1.8%	-0.7 .p.p.
30 to 50 years old	2.3%	3.2%	-0.9 p.p.
> 50 years old	2.8%	2.8%	0,0%

	2021		2020		20 vs 21	
Admissions and resignations	**Admissions**	**Departures**	**Admissions**	**Departures**	**Admissions**	**Departures**
Total	**66**	**455**	**192**	**479**	**-65.6%**	**-5.0%**
Gender						
Men	39	254	98	276	-60.2%	-8.0%
Women	27	201	94	203	-71.3%	-1.0%
Age bracket						
< 30 years old	27	68	135	28	-80.0%	142.9%
30 to 50 years old	34	156	53	202	-35.8%	-22.8%
> 50 years old	5	231	4	249	25.0%	-7.2%

	2021		2020		20 vs 21	
Training hours / employee	**Total**	**Average per employee**	**Total**	**Average per employee**	**Total**	**Average per employee**
Total	**179 294**	**42.8**	**196 958**	**43.0**	**-8.6%**	**-0.2%**
Gender						
Men	79 999	41.2	89 359	41.4	-10.5%	-0.6%
Women	99 295	44.2	107 600	44.4	-7.7%	-0.6%
Professional Category						
Management	**9 372**	**19.9**	**9 297**	**19.7**	**0.8%**	**0.8%**
Men	5 838	19.4	5 690	19.0	2.6%	1.9%
Women	3 534	20.7	3 607	20.8	-2.0%	-0.9%
Heads of Department	**9 914**	**21.5**	**8 217**	**16.0**	**20.7%**	**34.3%**
Men	5 436	21.2	4 758	16.4	14.2%	29.4%
Women	4 478	22.0	3 460	15.6	29.4%	40.8%
Specific	**94 958**	**48.1**	**99 218**	**45.6**	**-4.3%**	**5.6%**
Men	43 078	48.3	46 210	46.9	-7%	3.1%
Women	51 880	47.9	53 008	44.5	-2.1%	7.7%
Administrative	**65 049**	**50.9**	**80 226**	**56.8**	**-18.9%**	**-10.4%**
Men	25 647	52.7	32 701	56.8	-21.6%	-7.2%
Women	39 403	49.8	47 525	56.8	-17.1%	-12.4%
Auxiliary	**0**	**0**	**0**	**0**	**-**	**-**

	2021		2020		20 vs 21	
Parental Leave	**Men**	**Women**	**Men**	**Women**	**Men**	**Women**
Employees who took parental leave	39	88	82	130	-52.4%	-32.3%
Employees who returned to work after parental leave ended	39	50	82	85	-52.4%	-41.2%
Employees who returned to work after parental leave ended and remained in service after 12 months.			74	116	-	-
Return to work rate	100.0%	56.8%	100%	65.4%	0.0 p.p.	-8.6 p.p.
Retention rate after 12 months of work			90.2%	89.3%	-	-

Health Services	2021	2020	21 vs 20
Occupational Health - Occupational Medicine			
Medical Exams	3 007	1 508	99.4%
General Practice Consultations	7 597	8 345	-9.0%
Curative Medicine consultations and prescriptions	11 952	9 444	26.6%
Consultations in other medical specialities			
Mental health consultations (psychology and psychiatry)	928	751	23.6%
Nutrition Consultations	383	348	10.1%
Nursing			
Total procedures (treatments, vaccination, medication, ECG)	6 772	5 760	17.6%
Risk Prevention and Control Programmes			
Cardiovascular screening	2 408	1 100	118.9%
Cancer screening	724	354	104.5%
Vision screening	2 674	1 212	120.6%
Executive Check-up (for senior executives)	186	86	116.3%

Health and Safety Indicators	2021	2020	21 vs 20
Work related accidents	**27**	**29**	**-6.9%**
Men	10	11	-9.1%
Women	17	18	-5.6%
Occupational diseases	-	-	-
Men	-	-	-
Women	-	-	-
Deaths	**0**	**0**	**-**
Men	0	0	-
Women	0	0	-
Accident rate	**3.8%**	**2.8%**	**1.0 p.p.**
Men	3.0%	2.8%	0.2 p.p.
Women	4.6%	4.3%	0.3 p.p.
Lost days rate	**0.05%**	**0.05%**	**0.0 p.p.**
Men	0.04%	0.03%	0.01 p.p.
Women	0.04%	0.07%	-0.03 p.p.
Absenteeism rate	**3.2%**	**4.5%**	**-1.3 p.p.**
Men	2.3%	2.7%	-0.4 p.p.
Women	3.9%	6.1%	-2.2 p.p.

Health and Safety Indicators	2021	2020	21 vs 20
Training in occupational health and safety			
No. health training hours	29	50.0	-42.0%
No. safety training hours	520.5	1 292.1	-59.7%
No. of hours of health awareness promotion	**2 938.0**	**1 085.0**	**170.8%**
Number of safety audits to the premises	107	155	-31.0%
Number of ergonomic assessments	2	2	0.0%
No. of expert identifications and risk assessment of activities (IPAR)	150	110	36.4%
No. of thermal environment assessments	1	1	0.0%
No. of indoor air quality assessments	0	1	-100.0%
No. of lighting assessments	0	6	-100.0%
Other (Work Accident Analysis)	6	13	-53.8%

Employee Benefits	2021	2020	21 vs 20
Education support			
Early childhood benefits	398	436	-8.7%
	€454 382.08	€511 639.91	-11.2%
School grants	224	262	-14.5%
	€164 119.40	€192 834.66	-14.9%
Support to children and youths with special needs	91	81	12.3%
	€87 440.00	€79 940.00	9.4%
Christmas present	3 171	2 324	36.4%
	€126 840.00	€120 960.00	4.9%
Support to retired employees	**€124 720.00**	**€108 640.00**	**14.8%**
Expenses with senior residences, day-care centres, home support, medicines and other basic necessities.	68	60	13.3%
Under the ACT (Collective wage agreement)			
Residential mortgage loans	€15 799 862.00	€15 811 993.00	-0.1%
Acquisition of consumer goods	€2 033 351.04	€2 597 801.00	-21.7%
In portfolio:			
Residential mortgage loans	€260 419 116.70	€276 094 383.00	-5.7%
Individual Loans	€11 436 868.20	€13 538 205.00	-15.5%

5.3 GOVERNANCE

Gender Equality - (under-represented gender %)	2021	2020	21 vs 20
Board of Directors and 1st line managers (under-represented gender)	25.6%	26.5%	-0.9 p.p
Management staff	36.2%	36.7%	-0.5 p.p.
Pay gap	10.1%	9.4%	-0.7 p.p.
Ratio of women's total remuneration to men's total remuneration per employee category			
Management	0.88	0.87	1 p.p.
Heads of Department	0.97	0.95	2 p.p.
Specific	0.90	0.89	1 p.p.
Administrative	0.90	0.89	1 p.p.
Auxiliary	0	0	-
Total	**0.78**	**0.76**	**2 p.p.**

Sustainability scoring (%)	2021	2020	21 vs 20
Suppliers that endorsed novobanco Group's relationship principles and have a sustainability scoring (%)	52%	41%	11 p.p.

6.0
ABOUT THIS REPORT

6.1 Methodological notes
6.2 GRI Table
6.3 Independent Limited Assurance Report

Sandra Catarino
Risk Department - Area Manager

This report describes the manner in which the novobanco Group approaches sustainability in the management of its activity, in its involvement with employees and clients, in carrying out sustainable business and in ensuring responsible conduct. It also details the Group's sustainability performance in the last two years.

This report was drawn up in accordance with the Global Reporting Initiative (GRI) model, standard option. The GRI table is available in the Bank's website, at: NOVO BANCO/Institutional/Sustainability/ Sustainability Report. This report, which under the terms of Article 508-G of the Commercial Companies Code constitutes the Non-Financial Statement of the novobanco Group, is also drawn up for compliance with the legal requirements introduced by Decree-Law no. 89/2017, of 28 July.

Ernst & Young, Audit & Associados, SROC, SA has provided independent assurance to this sustainability performance, considering that the relevant indicators were reported in accordance with the GRI sustainability reporting standards and with Decree-Law no. 89/2017, as can be seen on pages XX and XX.

The 2021 Sustainability Report complements and details the information contained in the 2021 Annual Report, providing evidence that sustainability is an integral part of the Bank's strategy.

In order to continue to progress and improve its performance, NOVO BANCO takes into account the concerns and suggestions of its stakeholders. To this end, any questions, comments or suggestions may be sent to the following email address:

sustentabilidade@novobanco.

6.1 METHODOLOGICAL NOTES

SOCIAL INDICATORS	
Staff Turnover	((Number of admissions + departures/ 2) total employees)[2]
New hires rate	New hires in 2021/total number of employees in 2021
Accident Rate	Number of accidents at work/Hours worked*1000000
Absenteeism Rate	Number of absences (without maternity / paternity leave)/Possible working hours*100
Return to Work Rate	* Employees who returned to work after parental leave ended and remained in service after 12 months, based on the number of returns in 2021
Average training hours per gender	Total number of training hours per gender/Total number of employees in each gender
Average training hours per professional category	Total number of training hours per professional category/Total number of employees in each category
Remuneration ratio	Ratio of average base remuneration and average total remuneration of women to men by employee category - (women remuneration / men remuneration)*100
Social Dividend #NB Equal Gender and #NB Work & Life	Amount reached in December 2021 - baseline value 2016/target set for 2020 - baseline value 2016 The methodology for the Home office, Early Friday/ Late Monday and purchase of holidays initiatives was changed in 20199. In the previous methodology, no account was taken of the employees who used the initiatives, regardless of the year in which the benefit was used. From 2020 and with the new methodology only repetitions within the same year are excluded. This new calculation formula is justified by the extended monitoring period of the indicators.
Branches located in low density areas.	Number of branches located in the 165 low-density municipalities identified by Deliberation 55/2015 of the Interministerial Commission for Coordination, Portugal 2020
Economic value distributed	General and administrative expenses + Staff Costs+ Taxes + donations
ENVIRONMENTAL INDICATORS	
Electricity	Amount calculated directly from EDP records and billing
Generators diesel	Diesel consumption in 2021 is an estimate based on the number of hours generators were operating.
Water	Estimate based on real water consumption in 100% of the central buildings and 48% of the branches.
Social Dividend | NB Environment	Amount reached in December 2021 - baseline value 2016/target set for 2020 - baseline value 2016

Energy **PCI diesel (road)** **Density of diesel (generators)** **PCI Propane gas (LPG) and Natural gas** **Electricity**	The following formula was used to calculate direct energy consumption (fuel consumption) in GJ: Fuel consumption (l) * PCIX * Density X/1000, using the following conversion factors: 42.8 GJ/t (Source: Order No. 17313/2008 (SGCIE) 0.84 (Source: DGEG 2017, data for 21-09-2019) 46.65 GJ/t (Source: APA 2013 - https://apambiente.pt/_zdata/DPAAC/CELE/tabela_PCI_FE_FO_2013.pdf) conversion:1 kWh = 0.0036 GJ (Source: International Energy Agency and GRI)
CO_2 Emissions Scope 1	The following formula was used to calculate direct energy consumption (fuel consumption) in GJ: Fuel consumption (l) * PCIX * Density X/1000, using the following conversion factors: • PCI diesel (generators) - 43.07 GJ/ (Source: APA - Fuel density values to be used under the EU ETS) • Density of diesel (generators) - 0.837 kg/l Source: APA - Fuel density values to be used under the EU ETS) • It also takes into account the following emission factors and parameters used to calculate Greenhouse Gases (GHG) emissions: • Light vehicle, petrol, engine cubic capacity < 1 400 cm3 0.173 kg CO2e/km (Source: GHG Protocol: Emission Factors from Cross-Sector Tools, 2017) • Light vehicle, petrol, engine cubic capacity 1 400 and < 2000 cm3 - 0.215 kg CO2e/km (Source: GHG Protocol: Emission Factors from Cross-Sector Tools, 2017) • Light vehicle, petrol, engine cubic capacity ≥ 2000 cm3 - 0.299 kg CO2e/km (Source: GHG Protocol: Emission Factors from Cross-Sector Tools, 2017) • Light vehicle, diesel, engine cubic capacity < 2 000 cm3 - 0.181 kg CO2e/km (Source: GHG Protocol: Emission Factors from Cross-Sector Tools, 2017) • Light vehicle, diesel, engine cubic capacity ≥ 2 000 cm3 - 0.245 kg CO2e/km (Source: GHG Protocol: Emission Factors from Cross-Sector Tools, 2017) • Hybrid vehicle - 0.144 kg CO2e/km (Source: APA - NIR 2020) • Electric vehicle - 0.018 kg kg CO2e/km (consumption - 13.3 kW/100 km) (Source: APREN, 2020)
CO_2 Emissions Scope 2	The following conversion factor was used to convert indirect electricity consumption to GJ: 1 kWh = 0.0036 GJ Electricity consumption was calculated using the following formula: Emission = Consumption X * Emission factor (EF)X It also takes into account the following emission factors and parameters used to calculate GHG emissions: • Electricity production mainland - market based method - 0.134 kg CO2e/kWh (Source: EDP 2019 Sustainability Report) • Electricity production mainland - location based method - 0.457 kg CO2e/kWh (Source: APREN, 2020 energy mix) • Electricity production in Madeira - location and market-based methods - 0.487 kg CO2e/kWh (Source: EE Madeira 2019)
CO_2 Emissions Scope 3	The calculation includes the emissions resulting from employees' business trips and home/work/home (HWH) trips, using the following formula: Emission = Trip (km) X * EFX It also takes into account the following emission factors and parameters used to calculate GHG emissions: • Diesel vehicle - 0.210 kg CO2e/km (Source: APA - NIR 2020) • Petrol vehicle - 0.209 kg CO2e/km (Source: APA - NIR 2020) • LPG vehicle - 0.193 kg CO2e/km (Source: APA - NIR 2020) • Hybrid vehicle - 0.144 kg CO2e/km (Source: APA - NIR 2020) • Electric vehicle - 0.018 kg CO2e/km (consumption - 13.3 kW/100 km) (Source: APREN 2020) • Bus - 0.102 kg CO2e/km (Source: DEFRA 2020; 1.420 kg CO2e/km (Source: STCP 2011) and 0.115 kg CO2e/km (Source: Carris 2019) • Subway - 0.0467kg CO2e (Source: Metro Lisboa 2016) and km, 0.040 kg CO2e/km (Source: Metro do Porto 2018) • Train - 0.0157 kg CO2e/km (Source: CP 2019) and 0.021 kg CO2e/km (Source: Fertagus 2013/2014) • Ferry - 0.190 CO2e/km (Source: Transtejo+Soflusa, 2014) • Motorcycle (petrol) - 0.133 kg CO2e/km (Source: APA - NIR 2020) • Motorcycle (electric) - 0.012 kg kg CO2e/km (consumption - 9 kW/100 km) (Source: APREN 2020) • Plane emission = Trip (Km) X * EFX * Takeoff factor * RFI2 • It also takes into account the following emission factors and parameters used to calculate GHG emissions: • Plane, Domestic flight FE CO2 - 0.17147 kg CO2e/km (Source: GHG Protocol: Emission Factors from Cross-Sector Tools 2017) • Plane, short-distance flight FE CO2 - 0.09700 kg CO2e/km (Source: GHG Protocol: Emission Factors from Cross-Sector Tools 2017) • Plane, long-distance flight FE CO2 - 0.11319 kg CO2e/km (Source: GHG Protocol: Emission Factors from Cross-Sector Tools 2017) • Plane, domestic flight FE CH4 - 0.0001 kg CO2e/km (Source: DEFRA 2020) • Plane, short-distance flight FE CH4 - 0.00001 kg CO2e/km (Source: DEFRA 2020) • Plane, long-distance flight FE CH4 - 0.00001 kg CO2e/km (Source: DEFRA 2020) • Plane, domestic flight FE N2O - 0.00002 kg CO2e/km (Source: DEFRA 2020) • Plane, short-distance flight FE N2O - 0.00076 kg CO2e/km (Source: DEFRA 2020) • Plane, long-distance flight FE N2O - 0.00095 kg CO2e/km (Source: DEFRA 2020) • Takeoff factor - 109% (Source: DEFRA/IPCC 1999) • RFI - 1.9% (Source: DEFRA/IPCC 1999) • The calculation of GHG emissions from wastewater treatment also takes into account the following emission factors and parameters: 0.0019 kgCH4/per day (8-hour working day; employees in-office workdays in 2020), with the following factors: • Global Warming Potential (GWP) CO2 – 1 • GWP CH4 – 28 • GWP N2O- 265 • The calculation of emissions associated with paper consumption, treatment of paper sent for recycling and water consumption also considers the following emission factors: • Paper life cycle - 0.3 t CO2e/t paper consumed (Source: CEPI - Key Statistics 2019) • Paper recycling: - 0.0213 kg CO2e/ kg of paper sent for recycling (Source: DEFRA 2020) • Water consumption - 0.265 kg CO2e/m3 of water collected (Source: EPAL 2017)

CLIENT INDICATORS	
Customer service	The weight of customers very satisfied with the service is measured by the % of responses of 8 to 10 on a scale of 1 to 10
Global satisfaction	The weight of customers very satisfied with the Bank is measured by the % of responses of 8 to 10 on a scale of 1 to 10
Confidence	The confidence index corresponds to the average of responses on a scale of 0 to 10, with the average being converted into an index of 0 to 100
Net Promoter Score	The Net Promoter Score is calculated based on the recommendation intention, as the difference between the % of promoters and the % of detractors The % of promoters corresponds to the % of responses of 9 to 10 on a scale of 0 to 10 The % of detractors corresponds to the % of responses of 0 to 6 on a scale of 0 to 10
Very Satisfied Clients	The weight of very satisfied clients is measured by the % of responses of 8 to 10 on a scale of 1 to 10
Complaint rate per 1000 active clients	Number of existing complaints divided by the number of active clients, with active clients considered as those that used the Bank's service in the last 3 months.

6.2 GRI TABLE

GENERAL DISCLOSURES		Page in the Report	SDG	GC Principles	Omissions	Scope
ORGANISATIONAL PROFILE						
102-1	Name of the organisation	AR- page 2				
102-2	Main brands, products, and services	SR – pages 112-118 MR - pages 14-16; 25-29; 43-47. Institutional website, product and corporate				
102-3	Location of headquarters	AR - page 2.				
102-4	Number of countries where the organisation operates, and the names of countries where it has significant Operations and/or that are relevant to the topics covered in the report.	SR – page 94 The 2021 Sustainability Report covers the novobanco Group – novobanco, novobanco dos Açores, Banco Best and GNBGA. MR – pages 43-47. FS – page 167.				
102-5	Ownership and legal form	FS - page 167				
102-6	Markets served: • geographic locations where products and services are offered; • sectors served; • types of customers and beneficiaries	SR – pages 112-118 MR - pages 14-16; 25-29; 43-47. Institutional website, product and company The 2021 Sustainability Report covers the novobanco Group scope (novobanco, novobanco dos Açores, Banco Best and novobanco Gestão de Ativos Group), and the figures for the 2020 Sustainability Report were recalculated based on this scope. The information on employees reported in this report has the same scope as the Annual Report, i.e., it covers permanent employees, fixed-term contracts and employees on loan. The employees with the remaining employment contracts - interns, temporary workers and service providers - totalling 48 in 2021 - represent 0.01% of the group's total workforce.				

GENERAL DISCLOSURES		Page in the Report	SDG	GC Principles	Omissions	Scope
OMRANISATIONAL PROFILE						
102-7	Scale of the oMRanisation: • total number of employees; • total number of operations; • net sales; • total capitalisation broken down in terms of debt and equity; • quantity of products or services provided	SR –pages 94; 112-118; 119;134. MR – pages - 13 and 22. FS - page 162-163.				
102-8	Total number of employees by employment contract (permanent and temporary), by gender and region	SR - pages 119-122; 134-135. MR - pages 13 and 23.	8	6		
102-9	A description of the oMRanisation's supply chain, including its main elements as they relate to the oMRanisation's activities, primary brands, products, and services	SR - page 125. Bank institutional website.				
102-10	Significant changes to the oMRanisation's size, structure, owneSRhip, or supply chain during reporting period	Increase in the Bank's share capital to the amount of 6,054,907,314.00 Euros. Increase of the Bank's share capital to 6,054,907,314.00 euros. Shareholder Structure Nani Holdings S.G.P.S., S.A - 73.83% Fundo de Resolução (Resolution Fund) - 24.61% Directorate General for the Treasury and Finance - 1.56% MR- page 65.				
102-11	Precautionary Principle or approach	SR – pages 100-101. MR – pages 14-16; 25-29; 43-47.				
102-12	A list of externally-developed economic, environmental and social charteSR, principles, or other initiatives to which the oMRanisation subscribes, or which it endoSRes.	SR – pages 103; 128-130. Bank institutional website.				
102-13	A list of the main membeSRhips of industry or other associations, and national or international advocacy oMRanizations	SR – pages 103;128-130. Bank institutional website.				
STRATEGY						
102-14	A statement from the most senior decision-maker of the oMRanisation (such as CEO, chair, or equivalent senior position) about the relevance of sustainability to the oMRanisation and its strategy for addressing sustainability.	AR - pages 5-6.				
102-15	A description of key impacts, risks, and opportunities	SR – pages 100-102. MR – pages 14-16; 25-29; 43-47; 57-63.				
ETHICS AND INTEGRITY						
102-16	Values, principles, standards, and norms of behaviour.	SR – pages 105-107. MR – pages 12; 20-23; 65-79.	16	10		
102-17	A description of internal and external mechanisms for: seeking advice about ethical and lawful behaviour, and oMRanisational integrity; reporting concerns about unethical or unlawful behaviour, and oMRanisational integrity.	SR – pages 96-97; 107-123. MR – pages 12; 20-23; 65-79. Bank institutional website.	16	10		
CORPORATE GOVERNANCE						
102-18	Governance structure of the oMRanization, including committees of the highest governance body. Committees responsible for decision making on economic, environmental, and social topics.	SR – pages 105-107. MR – pages 12; 20-23; 65-79. Bank institutional website.				
102-19	Process for delegating authority for economic, environmental, and social topics from the highest governance body to senior executives and other employees.	SR – 105-107.				
102-20	Executive-level responsibility for economic, environmental, and social topics.	Chairman of the Executive Board of Directors SR – pages 105-107. MR- pages 12; 20-23; 65-79. Bank institutional website.				
102-21	Consulting stakeholdeSR on economic, environmental, and social topics	SR – pages 97-101. Bank institutional website.	16			
102-22	Composition of the highest governance body and its committees	SR – pages 105-107. MR- pages 12; 20-23; 65-79. Bank institutional website.	5, 16			
102-23	Whether the chair of the highest governance body is also an executive officer in the oMRanisation. If the chair is also an executive officer, describe his or her function within the oMRanisation's management and the reasons for this arrangement.	SR – pages 105-107. MR- pages 12; 20-23; 65-79. Bank institutional website.	16			

GENERAL DISCLOSURES		Page in the Report	SDG	GC Principles	Omissions	Scope
102-24	Nomination and selection processes for the highest governance body and its committees and criteria used for nominating and selecting highest governance body membeSR-	MR- pages 12; 20-23; 65-79. Institutional website.	5, 16			
102-25	Processes for the highest governance body to ensure conflicts of interest are avoided and managed.	SR – page 107. MR- pages 12; 20-22; 71. Institutional website, Conflicts of Interest Polic.	16			
102-26	Highest governance body's and senior executives' roles in the development, approval, and updating of the oMRanisation's purpose, value or mission statements, strategies, policies, and goals related to economic, environmental, and social topics.	The Chairman of the Executive Board of Directors and remaining members of the Executive Board of Directors and General and Supervisory Board who are part of the Sustainability Steering Committee, control and approve sustainability management on a monthly basis, based on the objectives defined for 2024. These objectives are monitored through an action plan and the coordination of teams appointed to implement both the E - pillar (ESG pillar) of the bank's strategy, and the Social Dividend model, with objectives defined for 2021, quarterly assessed. The social dividend aims to give back to the bank's employees and the community in general what the bank generates with its activity. These models and respective procedures ensure the alignment of sustainability performance across the Bank's various operations, through coordination of the initiatives with the officers appointed in each operation. SR – pages 105-107. MR- pages 12; 20-23; 65-79. Institutional website, Conflicts of Interest Policy.				
102-27	Measures taken to develop and enhance the highest governance body's collective knowledge of economic, environmental, and social topics.	Sustainability issues are submitted to the Chairman of the Executive Board of Directors and the members of the Executive Board of Directors who are part of the Sustainability Steering Committee on a monthly basis and whenever justified. SR – capítulo 3 Governance da sustentabilidade MR - pages 12; 20-23; 65-79. Institutional website, Conflicts of Interest Policy.	4			
102-28	Processes for evaluating the highest governance body's performance with respect to governance of economic, environmental, and social topics	The performance assessment processes, with regard to the identification of risks and opportunities in economic, social and environmental issues, are identified and managed by the Executive Board of Directors, Committees, Departments and subsequently submitted to the highest governance body and to the Chairman of the Executive Board of Directors. For more information see SR – pages 105-107. MR - pages 12; 20-23; 65-79. Institutional website.				
102-29	Highest governance body's role in identifying and managing economic, environmental, and social topics and their impacts, risks, and opportunities – including its role in the implementation of due diligence processes.	SR – pages 105-107. MR – pages 65-79.	16			
102-30	Highest governance body's role in reviewing the effectiveness of the oMRanisation's risk management processes for economic, environmental, and social topics	SR – pages 105-107. MR –pages 58-64; 65-79.				
102-31	Frequency of the highest governance body's review of economic, environmental, and social topics and their impacts, risks, and opportunities	The Chairman of the Executive Board of Directors and the members of the Executive Board of Directors who are part of the Sustainability Steering Committee review the bank's sustainability performance on a montgly basis, including the key risks and opportunities. SR – pages 105-107. MR – pages 65-79.				
102-32	The highest committee or position that formally reviews and approves the oMRanisation's sustainability report and ensures that all material aspects are covered	The AR and the Sustainability Report are approved by the Executive Board of Directors and the General and Supervisory Board.				
102-33	Process for communicating critical concerns to the highest governance body.	SR – pages 105-107. MR – pages 65-79.				
102-34	Total number and nature of critical concerns that were communicated to the highest governance body.	SR – pages 105-107. MR – page 72. Institutional website - supervision committees and Irregularities Reporting policy Institutional website - supervision committees and Whistle-blowing Policy.				

GENERAL DISCLOSURES		Page in the Report	SDG	GC Principles	Omissions	Scope
102-35	a. Remuneration policies for the highest governance body and senior executives for the following types of remuneration: - Fixed pay and variable pay, including: • Performance-based pay • Equity-based pay (shares or share options) • Bonus • Deferred or vested shares • Sign-on bonuses or recruitment incentive payments • Termination payments • Clawbacks • Retirement benefits, including the difference between benefit schemes and contribution rates for the highest governance body, senior executives, and all other employees. b. How performance criteria in the remuneration policies relate to the highest governance body's and senior executives' objectives for economic, environmental, and social topics.	SR – pages 105-107. MR – pages 74-79. Institutional website, Remuneration Policies.				
102-36	Process for determining remuneration.	SR – pages 105-107. MR – pages 74-79. Institutional website, Remuneration Policies.				
102-37	StakeholdeSR' opinions with regard to remuneration are requested and taken into account, including through voting on remuneration policies and proposals, when applicable.	SR – pages 98-100; 103-105. MR – pages 74-79. Institutional website, Remuneration Policies.				
102-38	Ratio of the annual total compensation for the oMRanisation's highest-paid individual in each country of significant operations to the median annual total compensation for all employees (excluding the highest-paid individual) in the same country	Median annual total compensation for all employees (excluding the highest-paid individual); €34 634.5. CEO total annual remuneration: €371 858.0 Change in CEO remuneration: 1.2% Ratio of the CEO total annual compensation to the median annual total compensation for all employees (excluding the highest-paid individual) 10.7%				
102-39	Ratio of the peARentage increase in annual total compensation for the oMRanization's highest-paid individual in each country of significant operations to the median peARentage increase in annual total compensation for all employees (excluding the highest-paid individual) in the same country	The wage increase in 2021, as per the Collective wage agreement, was 0.2%. Average remuneration: 3.7%				
STAKEHOLDER INVOLVEMENT						
102-40	List of stakeholder groups	SR – pages 97;103; 108-126; 129-130.				
102-41	PeARentage of total employees covered by collective baMRaining agreements	SR – pages 97;103; 108-126; 129-130.	8	3		
102-42	*Identifying and selecting stakeholdeSR*	SR – pages 97;103; 108-126; 129-130.				
102-43	Approach to stakeholder engagement	SR – pages 97;103; 108-126; 129-130.				
102-44	Key topics and concerns that have been raised through stakeholder engagement, including how the oMRanization has responded to those key topics and concerns	SR – pages 97;103; 108-126; 129-130.				
REPORTING PRACTICE						
102-45	Entities included in the consolidated financial statements	FS- pages 168-169.				
102-46	Defining report content and topic boundaries	SR - pages 97-99.				
102-47	List of material topics	SR - pages 97-99.				
102-48	Restatements of information and reasons therefor	The 2021 Sustainability Report details the performance over the last two years for the novobanco Group scope, therefore the data presented in this report for 2020 were recalculated for this scope.				
102-49	Changes in reporting	The 2021 Sustainability Report details the performance over the last two years for the novobanco Group scope, therefore the data presented in this report for 2020 were recalculated for this scope. Increase of the Bank's share capital to 6,054,907,314.00 euros. Shareholder Structure Nani Holdings S.G.P.S., S.A - 73.83% Fundo de Resolução (Resolution Fund) - 24.61% Directorate General for the Treasury and Finance - 1.56% MR- page 66.				

GENERAL DISCLOSURES		Page in the Report	SDG	GC Principles	Omissions	Scope
102-50	Reporting period	1 January to 31 December 2021				
102-51	Date of most recent report	2020				
102-52	Reporting cycle	Annual				
102-53	Contact point for questions regarding the report	sustentabilidade@novobanco.pt				
102-54	Claims of reporting in accordance with the GRI Standards	"Core option"				
102-55	5 GRI content index	SR – pages 143-158.				
102-56	A description of the oMRanisation's policy and current practice with regard to seeking external assurance for the report.	SR – pages 159.	8	3		
ECONOMIC INDICATOSR **TOPIC: ECONOMIC PERFORMANCE**						
103-1	Explanation of the material topic and its Boundary	The novobanco Group's materiality matrix and the SDGs endorsed comprise the sustainability issues considered material in the development of its business, identified as a result of the Group's dialogue with its stakeholders. This matrix forms the basis of the novobanco Group's sustainability strategy and its overall strategy, alongside the commitments and objectives undertaken.				
103-2	The management approach and its components	The Strategic Plan defined for the 2019-2021 three-year period, on which the management approach has been based, was designed to put in place the necessary conditions for the novobanco Group to transition from a restructuring bank into a growth bank prepared for the future. To this end, the Bank is defining a new distribution model, streamlining its technological and process infrastructure, rejuvenating and enhancing its human capital, and fine-tuning its risk model, electing as cross-cutting priorities optimisation, digitisation and differentiation.				
103-3	Evaluation of the management approach	The novobanco Group has over the years promoted several initiatives with economic impacts. The group's activity has been shaped by and developed in accordance with the objectives established in the Strategic Plan, which resulted in the growth of the recurrent credit portfolio, with a reduction in the cost of risk, in significant improvements in commercial banking income, and in the continuous reduction of operating costs, despite the strong increase in investment. The Bank monitors the indicators defined for this topic on a monthly basis.				
201-1	Direct economic value generated and distributed	Banking Income: €: 855.9. million MR – page 39. Banking Income: €: 855.9 million MR – page 39. General and administrative expenses: €141.1 million MR – page 87. Staff Costs: €233.3 million MR – page 87. Payments to providers of Capital - Shareholders - There was no distribution of dividends. Taxes: €12,7M million MR – page 87. Community Investments: €1.6 million in donations SR – pages 129-130. Economic Value Distributed: €388.7M million Economic Value Retained €467.2M million	2, 5, 8, 9			
201-2	Financial implications and other risks and opportunities due to climate change	With regard to climate change, the novobanco Group offers its clients a number of environmental products, namely the 18.31, NB 18.25 and NB 26.31 accounts, as well as ECO and ESG structured products, ECO mortgage loans and ESG funds. It is also concerned with dematerialising client communications and reducing the direct environmental impact of its activity. The Bank has recently signed commitments concerning the decarbonisation of the economy. SR – pages 100-101; 112-118. AR- pages 59-60.	13			
201-3	Defined benefit plan obligations and other retirement plans	SR – pages 119-124; 136-138.				
201-4	*Financial assistance received from governance*	FS - pages 165 e 166.				
TOPIC: MARKET PRESENCE						
103-1	Explanation of the material topic and its Boundary	The novobanco Group's materiality matrix and the SDGs endorsed comprise the sustainability issues considered material in the development of its business, identified as a result of the Group's dialogue with its stakeholders. The novobanco Group has defined its sustainability policy and strategy based on this matrix, the SDGs, the commitments undertaken and the national and international regulatory framework.				

GENERAL DISCLOSURES		Page in the Report	SDG	GC Principles	Omissions	Scope
103-2	The management approach and its components	The Strategic Plan for the 2019-2021 three-year period, on which the management approach has been based, was designed to put in place the necessary conditions for the novobanco Group to transition from a restructuring bank into a growth bank prepared for the future. This plan has now been restructured under the new title of "Making the Future". Based on 9 pillars/ priorities, of which one is the ESG pillar, this plan will steer the group's activity in a competitive market until 2024. To this end, the Group is streamlining its technological infrastructure and processes, rejuvenating and enhancing its human capital and adjusting its risk model, selecting optimisation, digitisation and innovation as cross-cutting priorities.				
103-3	Evaluation of the management approach	The novobanco Group has over the years promoted several initiatives with economic impacts. The group's activity has been steered by the objectives established in the Strategic Plan, translating into the growth of the recurrent credit portfolio, with a reduction in the cost of risk, a significant improvement in commercial banking income, and the continuous reduction of operating costs, despite the strong increase in investment. The group monitors the indicators defined for this topic on a monthly basis.				
202-1	Ratios of standard entry level wage by gender compared to local minimum wage	For the professional categories that are representative of its workforce, novobanco pays a minimum salary that is higher than the national minimum wage (the lowest salary paid by novobanco is 1.33 times higher than the national minimum wage).	5, 7, 8	6		
202-2	Proportion of senior management hired from the local community	The group develops most of its activity in Portugal. Local hiring is an integral part of the Bank's hiring practices. Priority is always given to local employees, so as to build a sustained and competent workforce, with possibilities for career advancement, moving on to leadership positions. Consequently, management positions are mostly held by local employees and non-local employees are few. At national level and taking into account senior management - Executive Board of Directors -, employees of Portuguese nationality and women employees represent 33.3% and 16.7% of the workforce.	8	6		
TOPIC: INDIRECT ECONOMIC IMPACTS						
103-1	Explanation of the material topic and its Boundary	The novobanco Group's materiality matrix and the SDGs endorsed comprise the sustainability issues considered material in the development of its business, identified as a result of the Group's dialogue with its stakeholders. The novobanco Group has defined its sustainability policy and strategy based on this matrix, the SDGs, the commitments undertaken and the national and international regulatory framework.				
103-2	The management approach and its components	The novobanco Group has over the years promoted several initiatives with indirect economic impacts.				
103-3	Evaluation of the management approach	The novobanco Group monitors indicators pertaining to this topic and reports the results in its Annual Report, institutional website and Sustainability Report.				
203-1	Infrastructure investments and services supported	SR - pages 109-118. MR – pages 43-47.	2, 5, 7, 9, 11			
203-2	Significant identified indirect economic impacts of the oMRanisation, including positive and negative impacts	SR - pages 109-118. MR – pages 43-47.	1, 2, 3, 8, 10, 17			
TOPIC: PROCUREMENT PRACTICES						
103-1	Explanation of the material topic and its Boundary	The novobanco Group's materiality matrix and the SDGs endorsed comprise the sustainability issues considered material in the development of its business, identified as a result of the Group's dialogue with its stakeholders. The novobanco Group has defined its sustainability policy and strategy based on this matrix, the SDGs, the commitments undertaken and the national and international regulatory framework. Purchasing practices are considered material.				
103-2	The management approach and its components	The novobanco Group has over the years promoted several initiatives in this area, having namely implemented a sustainability scoring for the process of registration of suppliers in its Supplier Portal. SR – page 125-126.				
103-3	Evaluation of the management approach	The novobanco Group monitors indicators pertaining to this topic and reports the results in its Annual Report, institutional website and Sustainability Report.				
204-1	PeARentage of the procurement budget used for significant locations of operation that is spent on supplieSR local to that operation	The novobanco Group acquires its regular consumption products, such as stationery, equipment and specialised services for mainland Portugal and the Islands, from national companies. Around 90.8% of the expenses refer to national suppliers vs 9.2% of international suppliers. SR – page 125-126.	12			
TOPIC: ANTI-CORRUPTION						
103-1	Explanation of the material topic and its Boundary	The novobanco Group's materiality matrix and the SDGs endorsed comprise the sustainability issues considered material in the development of its business, identified as a result of the Group's dialogue with its stakeholders. The novobanco Group has defined its sustainability policy and strategy based on this matrix, the SDGs, the commitments undertaken and the national and international regulatory framework, and anti-corruption is considered material.				

GENERAL DISCLOSURES		Page in the Report	SDG	GC Principles	Omissions	Scope
103-2	The management approach and its components	The novobanco Group focuses on the prevention, detection, reporting and management of situations involving risks of conduct or irregular conducts, based on principles of integrity, honesty, diligence, competence, transparency and fairness.				
103-3	Evaluation of the management approach	The novobanco Group monitors indicators pertaining to this topic and reports the results in its Annual Report, institutional website and Sustainability Report.				
205-1	Total number and peARentage of operations assessed for risks related to corruption	SR – pages 109-118. MR – pages 43-47.	16	10		
205-2	Communication and training about anti-corruption policies and procedures	SR - page 95. MR - page 73.	16	10		
205-3	Confirmed incidents of corruption and actions taken	The novobanco Group was not aware of any cases of corruption in 2021.	16	10		
TOPIC: ANTI-COMPETITIVE BEHAVIOUR						
103-1	Explanation of the material topic and its Boundary	The novobanco Group's materiality matrix and the SDGs endorsed comprise the sustainability issues considered material in the development of its business, identified as a result of the Group's dialogue with its stakeholders. The novobanco Group has defined its sustainability policy and strategy based on this matrix, the SDGs, the commitments undertaken and the national and international regulatory framework. Unfair competition is considered material.				
103-2	The management approach and its components	novobanco has over the years participated in several initiatives in the area of sustainable financing, in partnership with its peers. In 2019 the Bank signed the "Letter of Commitment for Sustainable Finance in Portugal", which aims to contribute to the promotion of sustainable investment practices in the country, with the purpose of accelerating the process of transition to a carbon neutral economy by 2050, in full partnership with its peers. The Bank also participates in another two working groups on Sustainable Finance, promoted respectively by the Portuguese Association of Banks and the Portuguese Association of Investment and Pension Funds and Asset Management Firms. Within its new strategic plan, one of the priorities is the partnerships pillar, which seeks to find added value and new relevant partners for the development of value proposals in the financial sector. Thus, by finding value in partners the Bank seeks to provide a global ecosystem response to its clients.				
103-3	Evaluation of the management approach	The Bank monitors indicators pertaining to this topic and reports the results in its Annual Report, institutional website and Sustainability Report.				
206-1	Number of legal actions pending or completed during the reporting period regarding anti-competitive behaviour and violations of anti-trust and monopoly legislation in which the oMRanisation has been identified as a participant.	There is no record of any legal action regarding anti-competitive behaviour and violations of anti-trust and monopoly legislation involving the Bank in 2021.	16			
ENVIRONMENTAL INDICATOSR **TOPIC: MATERIALS ENEMRY**						
103-1	Explanation of the material topic and its Boundary	The novobanco Group's materiality matrix and the SDGs endorsed comprise the sustainability issues considered material in the development of its business, identified as a result of the Group's dialogue with its stakeholders. The novobanco Group has defined its sustainability policy and strategy based on this matrix, the SDGs, the commitments undertaken and the national and international regulatory framework. The environment and considered a material topic				
103-2	The management approach and its components	novobanco has over the years promoted several initiatives aimed at reducing its direct environmental impact. Some of these measures are included it is NB Environment programme, which is integrated in its Social Dividend model.				
103-3	Evaluation of the management approach	The novobanco Group monitors indicators pertaining to this topic and reports the results in its Sustainability Report and institutional website.				
301-1	Materials used by weight or volume	SR – pages 126-128; 132-133.	8,12	7,8		
TOPIC: ENEMRY WATER AND CO_2 EMISSIONS						
103-1	Explanation of the material topic and its Boundary	The novobanco Group's materiality matrix and the SDGs endorsed comprise the sustainability issues considered material in the development of its business, identified as a result of the Group's dialogue with its stakeholders. The group is finalising its sustainability policy and consequent sustainability strategy based on this matrix, the SDGs, the commitments, the objectives undertaken and the national and international regulatory framework. Issues such as the eco-efficiency of the Bank's branches, buildings and operations, paper consumption and other consumables, emissions and all items that impact the bank's environmental footprint are considered to be important. Energy consumption is the bank's largest resource consumption, along with paper and consequent CO2 emissions, and as such has been given special attention by the group.				

GENERAL DISCLOSURES		Page in the Report	SDG	GC Principles	Omissions	Scope
103-2	The management approach and its components	The novobanco Group has over the years promoted several initiatives aimed at reducing its direct environmental impact. Some of these measures are included it is NB Environment programme, which is integrated in its Social Dividend model. novobanco has promoted several initiatives that allow for the reduction of energy consumption, and in particular electricity consumption. Every year it compiles a CO2 emissions inventory, which in 2021 covered for the first time the novobanco group. In 2019, within the scope of its commitment to reduce CO2 emissions, the bank signed the 'Business Ambition for 1.5ºC' letter, a document recently issued by the United Nations Global Compact. With this signature, the bank assumes its commitment to preserve the planet and contribute to limit the temperature increase to 1.5ºC by 2050, and undertakes to submit a scientific project to reduce the CO2 emissions resulting from its activity. Given the scarcity of this resource, the group has over the years promoted several initiatives aimed at reducing its direct environmental in terms of water consumption.				
103-3	Evaluation of the management approach	The novobanco Group monitors indicators pertaining to this topic and reports the results in its Sustainability Report and institutional website.				
302-1	EneMRy consumption within the oMRanisation	SR – pages 126-128; 132-133.	7,8,12,13	7,8		
302-3	EneMRy intensity	SR – pages 126-128; 132-133.	7,8,12,13	8		
302-4	Reduction of eneMRy consumption	SR – pages 126-128; 132-133.	7,8,12,13	8,9		
302-5	Reductions in eneMRy requirements of products and services	SR – pages 114, 126-128; 132-133.	7,8,12,13	8,9		
305-1	Direct (Scope 1) GHG emissions	SR – pages 126-127; 133.	3,12,13,14,15	7, 8		
305-2	EneMRy indirect (Scope 2) GHG emissions	SR – pages 126-127; 133.	3,12,13,14,15	7, 8		
305-3	EneMRy indirect (Scope 3) GHG emissions	SR – pages 126-127; 133.	3,12,13,14,15	7, 8		
305-4	GHG emissions intensity	SR – pages 126-127; 133.	13,14,15	8		
305-5	Reduction of GHG emissions	SR – pages 126-127; 133.	13,14,15	8, 9		
305-6	Emissions of ozone-depleting substances (ODS)	There have been no recharges of gases with the potential to destroy the ozone layer since 2015, as these are prohibited under Regulation (EC) No. 1005/2009, on substances that deplete the ozone layer. Moreover, novobanco had been gradually replacing equipment that emit ozone-depleting gases, when such still exist.	3,12	7, 8		
305-7	Nitrogen oxides (NOx), sulphur oxides (SOx), and other significant air emissions	SOx and NOx emissions linked to the group's activity result from combustion associated with transportation, emergency generators and boilers. However, due to the reduced expression of these activities within the group's typical activity, these emissions are immaterial and therefore are not accounted for.	3,12,14,15	7, 8		
TOPIC: ENVIRONMENTAL COMPLIANCE						
103-1	Explanation of the material topic and its Boundary	The novobanco Group's materiality matrix and the SDGs endorsed comprise the sustainability issues considered material in the development of its business, identified as a result of the Group's dialogue with its stakeholders. The novobanco Group has defined its sustainability policy and strategy based on this matrix, the SDGs, the commitments undertaken and the national and international regulatory framework. Environmental compliance is a material issue.				
103-2	The management approach and its components	The novobanco Group has over the years promoted several initiatives aimed at reducing its environmental impact. Some of these measures are included in its # NB Environment programme, which is integrated in its Social Dividend model.				
103-3	Evaluation of the management approach	The Group monitors indicators pertaining to this topic and reports the results in its Sustainability Report.				
307-1	Significant fines and non-monetary sanctions for non-compliance with environmental laws and/or regulations	In 2021 there were no instances of non-compliance with environmental laws and/or regulations, nor were any fines paid in connection therewith.	16	8		

GENERAL DISCLOSURES		Page in the Report	SDG	GC Principles	Omissions	Scope
TOPIC: SUPPLIESR ENVIRONMENTAL ASSESSMENT						
103-1	Explanation of the material topic and its Boundary	The novobanco Group's materiality matrix and the SDGs endorsed comprise the sustainability issues considered material in the development of its business, identified as a result of the Group's dialogue with its stakeholders. The group is finalising its sustainability policy and consequent sustainability strategy based on this matrix, the SDGs, the commitments undertaken and the goals established.				
103-2	The management approach and its components	The novobanco Group has over the years promoted several initiatives to ensure a judicious selection of its suppliers, based on the information provided. The group calculates the suppliers' 'sustainability scoring', which takes into account environmental, ethical, labour, hygiene and safety in the workplace aspects of its suppliers.				
103-3	Evaluation of the management approach	The novobanco Group monitors indicators pertaining to this topic and reports the results in its Sustainability Report and institutional website.				
308-1	New supplieSR that were screened using environmental criteria	SR – pages 125-126.		8		
308-2	Negative environmental impacts in the supply chain and actions taken	SR – pages 125-126.		8		
TOPIC: EMPLOYMENT						
103-1	Explanation of the material topic and its Boundary	The novobanco Group's materiality matrix and the SDGs endorsed comprise the sustainability issues considered material in the development of its business, identified as a result of the Group's dialogue with its stakeholders. The novobanco Group has defined its sustainability policy and strategy based on this matrix, the SDGs, the commitments undertaken and the national and international regulatory framework. Employment is considered a material topic.				
103-2	The management approach and its components	The novobanco Group has over the years promoted several initiatives concerning the development of programmes that ensure human capital management focused on talent acquisition and retention, the rejuvenation of teams and the unlocking of the potential of the more experienced employees, using methodologies and programmes aimed at individual development, a balance between professional and personal life, and the creation of a circle of knowledge and sharing. The information on employees reported in this report has the same scope as the Annual Report, i.e., it covers permanent employees, fixed-term contracts and employees on loan. The employees with the remaining types of employment contracts, totalling 48 in 2021, represent 0.01 of the group's total workforce.				
103-3	Evaluation of the management approach	The novobanco Group monitors indicators pertaining to this topic and reports the results in its Sustainability Report and institutional website.				
401-1	Total number and rate of new employee hires during the reporting period, by age group, gender and region.	SR – pages 135-136.	5, 8	6		
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	The novobanco Group does not usually hire part-time employees, or only on an exceptional basis. In this context, benefits are granted under equal circumstances to all the group's employees and subsidies are attributed based on the employee's income. Trainees and temporary workers are not entitled to these benefits and are not covered by the scope of this report. Their representativeness within the group is very small:	8			
401-3	Total number of employees that were entitled to parental leave, by gender and return to work and retention rates of employees that took parental leave, by gender	SR – page 136.	8	6		
TOPIC: LABOUR/MANAGEMENT RELATIONS						
103-1	Explanation of the material topic and its Boundary	The novobanco Group's materiality matrix and the SDGs endorsed comprise the sustainability issues considered material in the development of its business, identified as a result of the Group's dialogue with its stakeholders. The novobanco Group has defined its sustainability policy and strategy based on this matrix, the SDGs, the commitments undertaken and the national and international regulatory framework. Labour relations are considered a material issue.				
103-2	The management approach and its components	The novobanco Group has over the years promoted several initiatives concerning the development of programmes that ensure human capital management focused on talent acquisition and retention, the rejuvenation of teams and the unlocking of the potential of the more experienced employees, using methodologies and programmes aimed at individual development, a balance between professional and personal life, and the creation of a circle of knowledge and sharing.				
103-3	Evaluation of the management approach	The Group monitors indicators pertaining to this topic and reports the results in its Sustainability Report and institutional website.				
402-1	Minimum notice periods regarding operational changes and whether the notice period and provisions for consultation and negotiation are specified in collective agreements	The novobanco Group informs its employees of any relevant facts pertaining to their career management in accordance with the established notice periods, seeking compliance with clause 27 of the Collective Wage Agreement, which stipulates that workplace transfers are subject to an advance notice of at least 30 days.	5	3		

GENERAL DISCLOSURES		Page in the Report	SDG	GC Principles	Omissions	Scope
TOPIC: OCCUPATIONAL HEALTH AND SAFETY						
103-1	Explanation of the material topic and its Boundary	The novobanco Group's materiality matrix and the SDGs endorsed comprise the sustainability issues considered material in the development of its business, identified as a result of the Group's dialogue with its stakeholders. The group is finalising its sustainability policy and consequent sustainability strategy based on this matrix, the SDGs, the commitments, the objectives undertaken and the national and international regulatory framework. Occupational health and safety are by the group as a material issue.				
103-2	The management approach and its components	The physical, psychological and social wellbeing of its employees is essential for the group, which to this end has in place a health and wellbeing policy based on five lines of action: 1. Communicate and raise awareness; 2. Diagnose and prevent: 3. Encourage and promote; 4. Offer and provide; 5. Reconcile and flexibilise: practices for a balance between professional, personal and family life.				
103-3	Evaluation of the management approach	The novobanco Group monitors indicators pertaining to this topic and reports the results in its Sustainability Report and institutional website.				
403-1	PeARentage of workeSR whose work, or workplace, is controlled by the oMRanisation, that are represented by formal joint management-worker health and safety committees.	novobanco group has no formal safety committees, however it engages its employees in the definition and implementation of safety practices and the prevention of occupational hazards. The national legislation requires a minimum guarantee of hygiene, health and safety conditions. The group goes beyond the requirements of the law, annually reporting its practices and results in the management of hygiene, health and safety of all its employees.	8			
403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by gender	SR – page 137.	8			
403-3	WorkeSR with high incidence or high risk of diseases related to their occupation	The novobanco Group is not aware of a high incidence or high risk of work-related diseases amongst its employees.	8			
403-4	Health and safety topics covered in formal agreements with trade unions	novobanco has entered into Company-level Agreements with all the trade unions represented in the institution, which enshrine the obligations of Occupational Medicine and hygiene and safety in the workplace. In addition to the legally mandatory consultations and exams, the Bank has in place other measures. SR –pages 123-124; 135-138.	8			
TOPIC: TRAINING AND EDUCATION						
103-1	Explanation of the material topic and its Boundary	The novobanco group's materiality matrix and the SDGs endorsed comprise the sustainability issues considered material in the development of its business, identified as a result of the group's dialogue with its stakeholders. The group is finalising its sustainability policy and consequent sustainability strategy based on this matrix, the SDGs, the commitments, the objectives undertaken and the national and international regulatory framework. The group considers the Capture and development of talent as a material topic, and consistently invests in the design and implementation of distinctive and motivating training, enabling the improvement of performances, and the development and evolution of its employees.				
103-2	The management approach and its components	The group has over the years promoted several initiatives and programmes to ensure that human capital management is focused on talent attraction and retention.				
103-3	Evaluation of the management approach	The novobanco Group monitors indicators pertaining to this topic and reports the results in its Sustainability Report.				
404-1	Average houSR of training that the oMRanisation's employees have undertaken during the reporting period, by gender and employee category	SR – pages 120-122;136.	4, 5, 8	6		
404-2	Programmes for upgrading employee skills and transition assistance programmes	SR – pages 120-122;136.	8			
404-3	PeARentage of employees receiving regular performance and career development reviews	The Performance Management Model, based on the continuous management of employee performance and development, is integrated in the Employee Portal, called "My Portal". The Performance Management Process covers all employees and includes a personal development programme where each employee can define his or her objectives in terms of continuing improvement in the performance of their functions. At the closing date of this report the 2022 performance assessment had not been concluded.	5, 8	6		

GENERAL DISCLOSURES		Page in the Report	SDG	GC Principles	Omissions	Scope
TOPIC: DIVESRITY AND EQUAL OPPORTUNITIES						
103-1	Explanation of the material topic and its Boundary	The novobanco group's materiality matrix and the SDGs endorsed comprise the sustainability issues considered material in the development of its business, identified as a result of the group's dialogue with its stakeholders. The Group is finalising its sustainability policy and consequent sustainability strategy based on this matrix, the SDGs, the commitments, the objectives undertaken and the national and international regulatory framework. The group considers the issue of Diversity and gender equality as important.				
103-2	The management approach and its components	novobanco has over the years promoted several initiatives within its #NB Equal Gender programme, which monitors three indicators and aims to develop a fair and gender-equal model, having for the purpose defined specific objectives for 2021.				
103-3	Evaluation of the management approach	The group monitors indicators pertaining to this topic and annually reports the results in its website and Sustainability Report.				
405-1	PeARentage of individuals within the oMRanisation's governance bodies in each of the following diveSRity categories: Gender, Age group, Other indicatoSR of diveSRity where relevant (such as minority or vulnerable groups).	MR– pages 20-22.	5, 8	6		
405-2	Ratio of basic salary and remuneration of women to men for each employee category	SR – pages 122, 139. The novobanco Group calculates the ratio based on total rather than base remuneration as the latter is linked to a level defined by the collective labour agreement (ACT).	5, 8, 10	6		
TOPIC: NON-DISCRIMINATION						
103-1	Explanation of the material topic and its Boundary	The novobanco Group's materiality matrix and the SDGs endorsed comprise the sustainability issues considered material in the development of its business, identified as a result of the Group's dialogue with its stakeholders. The group is finalising its sustainability policy and consequent sustainability strategy based on this matrix, the SDGs, the commitments, the objectives undertaken and the national and international regulatory framework. The group considers the issue Gender Equality and Human Rights as important.				
103-2	The management approach and its components	novobanco has over the years promoted several initiatives aimed at reducing discrimination negative impacts, namely through its #NB Equal Gender programme, integrated in its Social Dividend model.				
103-3	Evaluation of the management approach	novobanco has over the years promoted several initiatives within its #NB Equal Gender programme, which monitors three indicators with the aim of making the bank fairer and more gender-equal, having for the purpose defined specific objectives for 2021.				
406-1	Total number of incidents of discrimination and corrective actions taken	In 2021 no incidents or lawsuits came to the attention of the novobanco Group concerning discrimination on grounds of race, colour, gender, religion, public opinion or social background.	5, 8, 16	6		
TOPIC: FREEDOM OF ASSOCIATION AND COLLECTIVE BAMRAINING						
103-1	Explanation of the material topic and its Boundary	At the novobanco Group, the majority of the employees is covered by collective bargaining agreements and perform their activity in accordance with the obligations established therein.				
103-2	The management approach and its components	The group has over the years promoted several initiatives viewing non-discrimination, and in this context often meets with the Workers' Committee and the Trade Unions.				
103-3	Evaluation of the management approach	The Group monitors indicators pertaining to this topic and reports the results in its Sustainability Report.				
407-1	Operations and supplieSR in which the right to freedom of association and collective baMRaining may be at risk	In 2021, the group was not aware of any instances of non-compliance with laws or regulations for breaches of the right to freedom of association and collective bargaining, or of the payment of fines in connection thereof, within its value chain.		3		
TOPIC: CHILD LABOUR AND FOARED OR COMPULSORY LABOUR						
103-1	Explanation of the material topic and its Boundary	The novobanco Group's materiality matrix and the SDGs endorsed comprise the sustainability issues considered material in the development of its business, identified as a result of the group's dialogue with its stakeholders. The group is finalising its sustainability policy and consequent sustainability strategy based on this matrix, the SDGs, the commitments, the objectives undertaken and the national and international regulatory framework. The group considers the issue Gender Equality and Human Rights as important.				

GENERAL DISCLOSURES		Page in the Report	SDG	GC Principles	Omissions	Scope
103-2	The management approach and its components	The novobanco group complies with the legislation, rules and regulations in force and develops its activity in full compliance with its Equality and Non-Discrimination Policy and Human Rights Policy, defined based on: • the United Nations Global Compact Principles; • the Universal Declaration of Human Rights; • The Guidelines of the Organization for Economic Cooperation and Development (OECD) for Multinational Enterprises; • the Core Conventions of the International Labour Organization (ILO). novobanco's Human Rights Policy reflects its endorsement of and commitment to the Global Compact Principles. The compliance and audit functions and the mechanisms in place for the anonymous reporting of irregularities minimise the risk of any such occurrences within the Group's operations and in connection to its employees.				
103-3	Evaluation of the management approach	The novobanco Group monitors indicators pertaining to this topic and reports the results in its Sustainability Report and institutional.				
408-1 409-1	Operations and supplieSR at significant risk for incidents of child labour	During 2021 no instances came to the attention of novobanco Group concerning operations and suppliers where the risk of child labour or forced or compulsory labour had been identified.	8, 16	5		
TOPIC: SECURITY PRACTICES						
103-1	Explanation of the material topic and its Boundary	The novobanco Group's materiality matrix and the SDGs endorsed comprise the sustainability issues considered material in the development of its business, identified as a result of the group's dialogue with its stakeholders. The group is finalising its sustainability policy and consequent sustainability strategy based on this matrix, the SDGs, the commitments, the objectives undertaken and the national and international regulatory framework. The group considers the issue of Security as important.				
103-2	The management approach and its components	The group has over the years promoted several initiatives in this area for compliance with the legislation in force.				
103-3	Evaluation of the management approach	The novobanco Group monitors indicators pertaining to this topic and reports the results in its Sustainability Report.				
410-1	Security peSRonnel trained in human rights policies or procedures	In 2021 the group did not provide training in human rights to its security personnel.	16	1		
TOPIC: RIGHTS OF INDIGENOUS PEOPLES						
103-1	Explanation of the material topic and its Boundary	The novobanco Group's materiality matrix and the SDGs endorsed comprise the sustainability issues considered material in the development of its business, identified as a result of the group's dialogue with its stakeholders. The group is finalising its sustainability policy and consequent sustainability strategy based on this matrix, the SDGs, the commitments, the objectives undertaken and the national and international regulatory framework. The group considers the issue of Human Rights as important.				
103-2	The management approach and its components	The group does not promote initiatives in this regard as its activity is developed in urban or urbanised areas.				
103-3	Evaluation of the management approach	Not applicable				
411-1	Total number of identified incidents of violations involving the rights of indigenous peoples during the reporting period and remediation action taken	The group's operations are located in urban or urbanised areas, therefore there are no instances of violation of the rights of indigenous people.	2	1		
TOPIC: HUMAN RIGHTS ASSESSMENT						
103-1	Explanation of the material topic and its Boundary	The novobanco Group's materiality matrix and the SDGs endorsed comprise the sustainability issues considered material in the development of its business, identified as a result of the group's dialogue with its stakeholders. The group is finalising its sustainability policy and consequent sustainability strategy based on this matrix, the SDGs, the commitments, the objectives undertaken and the national and international regulatory framework. The group considers the issue of Human Rights as important.				
103-2	The management approach and its components	The Group has over the years promoted several initiatives aimed at reducing negative impacts arising from Human Rights issues, namely through its #NB Equal Gender programme, integrated in its Social Dividend model. The development of a culture of respect for human beings is part of novobanco Group's standards of excellence: respect for employees, respect in the manner we deal with clients, suppliers and other stakeholders, respect in the relationships established with the communities in the locations where the group operates. The group has a Human Rights policy that can be consulted on its institutional website.				
103-3	Evaluation of the management approach	The novobanco Group monitors indicators pertaining to this topic and reports the results in its Sustainability Report and institutional website.				
412-1	Total number and peARentage of operations that have been subject to human rights reviews or impact assessments	Not applicable		1		

GENERAL DISCLOSURES		Page in the Report	SDG	GC Principles	Omissions	Scope
412-2	Employee training on human rights policies or procedures	In 2021 novobanco Group did not provide any type of training on this topic.		1		
412-3	Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	All novobanco Group's suppliers are covered by its Principles for Suppliers, which require compliance with Human Rights obligations. These criteria are included in the agreements entered into with all suppliers (100%). The certification of suppliers requires answering mandatory response questions concerning human rights policies and practices. The Bank visits all its material suppliers to check their supply capabilities and their compliance with the requirements of the Principles for Suppliers. In 2021 the group found no instance of non-compliance with these principles by its material Suppliers, namely through its regular visits to their facilities. Should any cases of violation of human rights occur, the group undertakes to investigate them and reserves the right to terminate the agreement with the Supplier in question if it finds evidence of non-compliance with Human Rights obligations.		2		
TOPIC: LOCAL COMMUNITIES						
103-1	Explanation of the material topic and its Boundary	The novobanco Group's materiality matrix and the SDGs endorsed comprise the sustainability issues considered material in the development of its business, identified as a result of the group's dialogue with its stakeholders. The group is finalising its sustainability policy and consequent sustainability strategy based on this matrix, the SDGs, the commitments, the objectives undertaken and the national and international regulatory framework. The group considers the issue of investment in the community as important.				
103-2	The management approach and its components	novobanco Group has over the years promoted several initiatives under its Corporate Social Responsibility programme, which aims to help devise solutions for important issues within the community in which the Bank operates. This programme is deployed based on three pillars, namely: culture, financial literacy and solidarity. Some of the initiatives under these pillars are an integral part of the NB Social Responsibility programme, included within novobanco's Social Dividend Model.				
103-3	Evaluation of the management approach	The novobanco Group monitors indicators pertaining to this topic and reports the results in its Sustainability Report and institutional website.				
413-1	Operations with local community engagement, impact assessments, and development programmes	SR – pages 103; 128-130.		1		
413-2	Operations with significant actual and potential negative impacts on local communities	The novobanco Group is not aware of any operations having negative impacts on local communities.	1, 2	1		
TOPIC: SUPPLIESR SOCIAL ASSESSMENT						
103-1	Explanation of the material topic and its Boundary	The novobanco Group's materiality matrix and the SDGs endorsed comprise the sustainability issues considered material in the development of its business, identified as a result of the Group's dialogue with its stakeholders. The group is finalising its sustainability policy and consequent sustainability strategy based on this matrix, the SDGs, the commitments, the objectives undertaken and the national and international regulatory framework. The issues related to suppliers are considered as material.				
103-2	The management approach and its components	novobanco Group has over the years promoted several initiatives addressing its value chain, namely endorsing the Principles of Relationship with Suppliers, and calculating the "sustainability scoring", which takes into account environmental, ethical, labour, hygiene and safety in the workplace aspects of its suppliers.				
103-3	Evaluation of the management approach	The Group monitors indicators pertaining to this topic and reports the results in its Sustainability Report and institutional website.				
414-1	New supplieSR that were screened using social criteria	SR – pages 125-126.	5, 16	2		
414-2	Negative social impacts in the supply chain and actions taken	In 2021 novobanco was not aware of any negative impacts at this level.	5, 16	2		
TOPIC: PUBLIC POLICY						
103-1	Explanation of the material topic and its Boundary	The novobanco Group's materiality matrix and the SDGs endorsed comprise the sustainability issues considered material in the development of its business, identified as a result of the Group's dialogue with its stakeholders. The Group is finalising its sustainability policy and consequent sustainability strategy based on this matrix, the SDGs, the commitments, the objectives undertaken and the national and international regulatory framework. The group considers the issues Business Ethics and relations with stakeholders as important.				
103-2	The management approach and its components	The novobanco Group manages its activity in full compliance with the legislation in force.				
103-3	Evaluation of the management approach	Novobanco monitors indicators pertaining to this topic and reports the results in its Sustainability Report.				

GENERAL DISCLOSURES		Page in the Report	SDG	GC Principles	Omissions	Scope
415-1	Political contributions	Political contributions by companies are not permitted under Decree Law No. 19/2003, of 20 June, and novobanco Group complies with these provisions.	16	10		
TOPIC: CUSTOMER HEALTH AND SAFETY						
103-1	Explanation of the material topic and its Boundary	The novobanco Group's materiality matrix and the SDGs endorsed comprise the sustainability issues considered material in the development of its business, identified as a result of the Group's dialogue with its stakeholders. The group is finalising its sustainability policy and consequent sustainability strategy based on this matrix, the SDGs, the commitments, the objectives undertaken and the national and international regulatory framework. The group considers the topic Security of the financial assets, and physical and digital security of the client as material.				
103-2	The management approach and its components	The group has over the years promoted several initiatives across all client security activities, namely with respect to the clients' safety, the security of transactions, and the safeguard of the personal data of clients and other data subjects.				
103-3	Evaluation of the management approach	The novobanco Group monitors indicators pertaining to this topic and reports the results in its Sustainability Report.				
416-1	Assessment of the health and safety impacts of product and service categories	The group's facilities comply with all existing rules for secure and private customer service. The group conducts its relationship with clients in accordance with the new General Data Protection Regulation, guaranteeing privacy and security in the treatment of customer data. More information may be found in Indicator 418-1.				
416-2	Total number of incidents of non-compliance concerning the health and safety impacts of products and services	In 2021, there were no sanctions and/or fines imposed on novobanco Group in connection to the General Data Protection Regulation (GDPR).	16			
TOPIC: LABELLING OF PRODUCTS AND SERVICES						
103-1	Explanation of the material topic and its Boundary	The novobanco Group's materiality matrix and the SDGs endorsed comprise the sustainability issues considered material in the development of its business, identified as a result of the Group's dialogue with its stakeholders. The group is finalising its sustainability policy and consequent sustainability strategy based on this matrix, the SDGs, the commitments, the objectives undertaken and the national and international regulatory framework. The group considers customer satisfaction and service quality, and financial products and services as a material topic.				
103-2	The management approach and its components	novobanco Group has over the years promoted several initiatives aimed at providing clear and transparent information about the products and services it provides to its clients. Products disclosure is subject to prior approval by the competent supervision authority.				
103-3	Evaluation of the management approach	The Group monitors indicators pertaining to this topic and reports the results in its Sustainability Report and institutional website.				
417-1	Requirements for product and service information and labelling and peARentage of significant product or service categories covered by and assessed for compliance with such procedures.	The group provides clear information about each product or service offered, including about their characteristics and specific conditions. This information and underlying processes are subject to strict internal controls in terms of the Bank's internal audit and quality control, as well as strict external controls, through the supervision conducted by the Bank of Portugal, the CMVM and the external audits to the Bank's processes.	12, 16			
417-2	Total number of incidents of non-compliance with regulations and/or voluntary codes concerning product and service information and labelling, by type of result	In 2021 no incidents of non-compliance with voluntary procedures and voluntary codes concerning product and service information or labelling of novobanco Group were identified.	16			
417-3	Total number of incidents of non-compliance with regulations and/or voluntary codes concerning marketing communications, including advertising, promotion, and sponsoSRhip, by type of result	In 2021 no incidents of non-compliance with voluntary procedures and voluntary codes on marketing communications, including advertising, promotion, and sponsorship by novobanco Group, were identified.				
TOPIC: CUSTOMER PRIVACY						
103-1	Explanation of the material topic and its Boundary	The novobanco Group's materiality matrix and the SDGs endorsed comprise the sustainability issues considered material in the development of its business, identified as a result of the Group's dialogue with its stakeholders. The group is finalising its sustainability policy and consequent sustainability strategy based on this matrix, the SDGs, the commitments, the objectives undertaken and the national and international regulatory framework. The topic of customer privacy is considered material.				
103-2	The management approach and its components	novobanco Group has over the years promoted several initiatives to ensure it performs its activity in accordance with best market practices and the legal and regulatory requirements. The Bank ensures the confidentiality, integrity and availability of the information.				
103-3	Evaluation of the management approach	The novobanco Group monitors indicators pertaining to this topic and reports the results in its Sustainability Report.				

GENERAL DISCLOSURES		Page in the Report	SDG	GC Principles	Omissions	Scope
418-1	Total number of substantiated complaints received concerning breaches of customer privacy	In 2021, there were no sanctions and/or fines imposed on the group in connection to the General Data Protection Regulation (GDPR).	12			
TOPIC: SOCIOECONOMIC COMPLIANCE						
103-1	Explanation of the material topic and its Boundary	The novobanco Group's materiality matrix and the SDGs endorsed comprise the sustainability issues considered material in the development of its business, identified as a result of the Group's dialogue with its stakeholders. The group is finalising its sustainability policy and consequent sustainability strategy based on this matrix, the SDGs, the commitments, the objectives undertaken and the national and international regulatory framework. The topic Business ethics and stakeholder relations is considered as material.				
103-2	The management approach and its components	novobanco Group has over the years promoted several initiatives to ensure it performs its activity in accordance with best market practices and the legal and regulatory requirements.				
103-3	Evaluation of the management approach	The novobanco Group monitors indicators pertaining to this topic and reports the results in its Sustainability Report.				
419-1	Significant fines and non-monetary sanctions for non-compliance with laws and/or regulations in the social and economic area	The novobanco Group monitors indicators pertaining to this topic and reports the results in its Sustainability Report.	16			
FINANCIAL SUPPLEMENT INDICATOSR TOPIC: PORTFOLIO OF PRODUCTS						
103-1	Explanation of the material topic and its Boundary	The novobanco Group's materiality matrix and the SDGs endorsed comprise the sustainability issues considered material in the development of its business, identified as a result of the Group's dialogue with its stakeholders. The group is finalising its sustainability policy and consequent sustainability strategy based on this matrix, the SDGs, the commitments, the objectives undertaken and the national and international regulatory framework. The themes of Customer Satisfaction and Quality of Service, as well as Social and Environmental Products are considered to be material.				
103-2	The management approach and its components	The novobanco Group been enhancing its customer experience monitoring model with a view to offering the best experience to its clients. Knowing the clients' expectations throughout their life cycle permits to identify opportunities for improvement, using a robust model for monitoring the customer experience based on several action pillars. The Bank has also reinforced its offering and services based on environmental criteria.				
103-3	Evaluation of the management approach	The group monitors indicators pertaining to this topic and reports the results in its Sustainability Report and institutional website.				
Management Approach	Policies with specific environmental and social components applied to business lines.	SR – pages 106-107. MR- pages 59-60.	10			
	Procedures for assessing and screening environmental and social risks in business lines.	SR – pages 99-102. MR- pages 59-60.	10			
	Processes for monitoring clients' implementation of and compliance with environmental and social requirements included in agreements or transactions.	The novobanco Group has in place several mechanisms to regulate customer monitoring. In cases which may be considered more sensitive, prevention and monitoring plans are negotiated, and the situations are monitored, resorting, when necessary, to external experts.				
	Process(es) for improving staff competency to implement the environmental and social policies and procedures as applied to business lines	The novobanco Group provides adequate training to its employees on the marketing of products with environmental and social concerns.	10			
	Interactions with clients/investees/business partneSR regarding environmental and social risks and opportunities	SR – pages 109-126;128-130.	10			
FS6	PeARentage of the portfolio for business lines by specific region, size (e.g., micro/SME/ laMRe) and by sector	SR – pages 110-112. MR – pages 25-30; 43-47.	1, 8, 9			
FS7	Monetary value of products and services designed to deliver a specific social benefit for each business line broken down by purpose	SR – pages 112-118.	1, 8, 9, 10, 11			
FS8	Monetary value of products and services designed to deliver a specific environmental benefit for each business line broken down by purpose	SR – pages 112-118.				
TOPIC: AUDIT						
FS9	Coverage and frequency of audits to assess implementation of environmental and social policies and risk assessment procedures	No audits strictly dedicated to the implementation of environmental and social policies are carried out. The group annually assesses the practices implemented and the quantitative data through an external independent verification of its AR and Sustainability Report.	10			

GENERAL DISCLOSURES		Page in the Report	SDG	GC Principles	Omissions	Scope
TOPIC: ACTIVE OWNESRHIP						
FS10	PeARentage and number of companies held in the institution's portfolio with which the reporting organisation has interacted on environmental or social issues	AR- paginas 59-60	10			
FS11	PeARentage of assets subject to positive and negative environmental or social screening	AR- paginas 59-60	10			
FS12	Voting policy(ies) applied to environmental or social issues for shares over which the reporting organisation holds the right to vote shares or advises on voting	novobanco Group's equity holdings in other companies are always aimed at obtaining profitability in the long term. Having said that, the Bank's stance as a shareholder takes into account the relevant principles to ensure consistent ethical, social and environmental management.				
TOPIC: LOCAL COMMUNITIES						
FS13	Access points in low-populated or economically disadvantaged areas by type	SR – page 95. Despite the downsizing carried out, the group still has a large network of branches across the country. The group has been investing in the digitisation of its services, which has permitted greater coverage and easier contact with its clients, wherever they may be.	1, 10			
FS14	Initiatives to improve access to financial services for disadvantaged people	Under its new distribution model, the group has been increasing the number of access ramps and lifting platforms in its branch network. It also provides lowered ATMs with Braille keyboards. his equipment is being installed if and when necessary, as the branch network is refurbished. The aim is to gradually extend these access improvements to all novobanco's branches and services. SR – pages 114-115.	1, 10			
TOPIC: LABELLING OF PRODUCTS AND SERVICES						
FS15	Policies for the fair design and sale of financial products and services	All the financial products and services are designed in compliance with the legal requirements, the regulators' guidelines and the policies of the institution. novobanco Group regularly reports to its regulators proof of its respect for and compliance with politics and rules of conduct, externally and internally. The internal and external audits to the group's procedures verify whether its procedures comply with the requirements issued by the Bank of Portugal and the Portuguese Insurance Institute.	10			
FS16	Initiatives to enhance financial literacy by type of beneficiary	SR – pages 114-115; 130. Bank institutional website.	1, 8, 10			

AR Annual Report
MR Management Report
SR Sustainability Report
FS Financial Statements and Final Notes

novobanco Group

novobanco Group (novobanco, novobanco dos Açores, Banco Best and GNBGA)

novobanco

6.3 INDEPENDENT LIMITED ASSURANCE REPORT

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(Translation from the original document in the Portuguese language. In case of doubt, the Portuguese version prevails)

Independent Limited Assurance Report of the Sustainability Report

To the Board of Directors of
Novo Banco, S.A.

Introduction

1. We have been engaged by the Board of Directors of Novo Banco, S.A. (the Group) to proceed with the independent review of the "Sustainability Report 2021", hereinafter the "Sustainability Report", included in the "Annual Report 2021" relating to the sustainability performance from 1 January to 31 December 2021.

Responsibilities

2. The Board of Directors is responsible for preparing the Sustainability Report and to maintain an appropriate internal control system that allows the information presented to be free of material misstatements due to fraud or error.

3. It is our responsibility to issue a limited assurance report, professional and independent, based on the procedures performed and described in the "Scope" section below.

Scope

4. Our review procedures have been planned and executed in accordance with the International Standard on Assurance Engagements (ISAE 3000, Revised) – "Assurance engagements other than Audits and Reviews of Historical Financial Information", for a limited level of assurance.

5. The procedures performed in a limited assurance engagement vary in timing and nature from, and are less in extent than for, a reasonable assurance engagement. Therefore, the assurance provided by these procedures is lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Our independent review procedures comprised the following:

   - Conducting interviews with Management, in order to understand how the information system is structured and assess their level of knowledge of the topics addressed in the report;
   - Review of the processes, criteria and systems adopted to collect, consolidate, report and validate the data for the year 2021;
   - Analytical review, on a sample basis, of the data calculated by Management, and verification of quantitative and qualitative information disclosed in the report;
   - Confirmation on how collection, consolidation, validation and report procedures are being implemented in selected operating units; and
   - Verification of the conformity of the information included in the Sustainability Report with the results of our work.

6. Regarding sustainability reporting standards of the Global Reporting Initiative – GRI Standards, we performed a review of the self-evaluation made by Management of the adopted option to apply the GRI Standards and conformity with Article 508-G of the Portuguese Companies Act (Código das Sociedades Comerciais) (disclose of non-financial information).

Quality and independence

7. Our firm applies International Standard on Quality Control 1 (ISQC 1), and consequently maintains a global quality control system which includes documented policies and procedures relating to compliance with ethical requirements, professional standards, and the legal and regulatory provisions applicable and we comply with the independence and ethical requirements of the International Ethics Standards Board for Accountants (IESBA) Code of Ethics and the Code of Ethics of the Order of Chartered Accountants (OROC).

Conclusion

8. Based on our work and evidence obtained, nothing has come to our attention that causes us to believe that the information disclosed in the Sustainability Report, for the year ended 31 December 2021, is not free from relevant material misstatements. Additionally, nothing has come to our attention that causes us to believe that the Sustainability Report does not include the required data and information for a "In accordance – Core" option as defined by the GRI Standards and by the Article 508-G of the Portuguese Companies Act.

Lisbon, 09 March 2022

Ernst & Young Audit & Associados – SROC, S.A.
Sociedade de Revisores Oficiais de Contas
Represented by:

(signed)

Manuel Ladeiro de Carvalho Coelho da Mota – ROC nº 1410
Registered with the Portuguese Securities Market Commission under license nr. 20161020

Financial Statements and Final Notes

novobanco

Consolidated Financial Statements

novobanco

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

(in thousands of Euros)

	Notes	31.12.2021	31.12.2020
Interest Income	10	740 459	743 707
Interest Expenses	10	(167 065)	(188 573)
Net Interest Income		**573 394**	**555 134**
Dividend income	11	11 096	16 478
Fees and comission income	12	325 511	313 823
Fees and comission expenses	12	(47 357)	(47 305)
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	13	(5 123)	88 472
Gains or losses on financial assets and liabilities held for trading	13	50 896	(91 611)
Gains or losses on financial assets mandatorily at fair value through profit or loss	13	46 697	(364 000)
Gains or losses on financial assets and liabilities designated at fair value through profit and loss	13	21	-
Gains or losses from hedge accounting	13	14 195	(11 641)
Exchange differences	13	10 805	(2 414)
Gains or losses on derecognition of non-financial assets	14	7 551	(3 416)
Other operating income	15	163 875	120 732
Other operating expenses	15	(181 604)	(230 294)
Operating Income		**969 957**	**343 958**
Administrative expenses		(374 359)	(398 769)
Staff expenses	16	(233 261)	(245 606)
Other administrative expenses	18	(141 098)	(153 163)
Contributions to resolution funds and deposit guarantee	19	(40 535)	(35 048)
Depreciation	27.29	(34 004)	(33 072)
Provisions or reversal of provisions	34	(127 835)	(186 423)
Commitments and guarantees given		9 840	(22 116)
Other provisions		(137 675)	(164 307)
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss	20	(198 903)	(755 070)
Impairment or reversal of impairment of investment in subsidiaries, joint ventures and associates	20	315	(4 192)
Impairment or reversal of impairment on non-financial assets	20	(26 314)	(245 778)
Share of the profit or loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	26	3 794	9 430
Profit or loss before tax from continuing operations		**172 116**	**(1 304 964)**
Tax expense or income related to profit or loss from continuing operations		15 186	(1 082)
Current tax		(12 737)	8 639
Deferred tax		27 923	(9 721)
Profit or loss after tax from continuing operations		**187 302**	**(1 306 046)**
Profit or loss before tax from discontinued operations	32	4 887	(33 345)
Profit or loss for the year		**192 189**	**(1 339 391)**
Attributable to Shareholders of the parent		184 504	(1 329 317)
Attributable to non-controlling interests	37	7 685	(10 074)
		192 189	(1 339 391)
Basic earnings per share (in Euros)	21	0.02	(0.14)
Diluted earnings per share (in Euros)	21	0.02	(0.14)
Basic earnings per share of continuing activities (in Euros)	21	0.02	(0.13)
Diluted earnings per share of continuing activities (in Euros)	21	0.02	(0.13)

* Pro-forma considering the transfer of the Spanish Branch to discontinued operations, which occurred in the third quarter of 2020

The accompanying explanatory notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 DECEMBER 2021 AND 2020

(in thousands of Euros)

	Notes	31.12.2021	31.12.2020
Net profit / (loss) for the year		192 189	(1 339 391)
Other comprehensive income/(loss)			
Items that will not be reclassified to results		**(82 878)**	**(127 689)**
Actuarial gains / (losses) on defined benefit plans	a)	(75 584)	(124 331)
Other comprehensive income from associates accounted for using the equity method	a)	(252)	(2 048)
Fair value changes of equity instruments measured at fair value through other comprehensive income	a)	(7 042)	(12 193)
Fair value changes of financial liabilities at fair value through profit or loss that is attributable to changes in their credit risk	a)	-	10 883
Items that may be reclassified to results		**(139 191)**	**6 580**
Foreign exchange differences	a)	95	(1 518)
Financial assets at fair value through other comprehensive income	a)	(139 286)	8 098
Total other comprehensive income/(loss) for the year		**(29 880)**	**(1 460 500)**
Attributable to non-controlling interest		**7 685**	**(10 074)**
Attributable to Shareholders of the Bank		**(37 565)**	**(1 450 426)**

a) See Statement of Changes in the Consolidated Equity

The accompanying explanatory notes are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2021 AND 2020

(in thousands of Euros)

	Notes	31.12.2021	31.12.2020
Assets			
Cash. cash balances at central banks and other demand deposits	22	5 871 538	2 695 459
Financial assets held for trading	23	377 664	655 273
Financial assets mandatorily at fair value through profit or loss	24	799 592	960 962
Financial assets at fair value through other comprehensive income	24	7 220 996	7 907 587
Financial assets at amortised cost	24	26 039 902	25 898 046
Securities		2 338 697	2 229 947
Loans and advances to banks		50 466	113 795
Loans and advances to customers		23 650 739	23 554 304
Derivatives – Hedge accounting	25	19 639	12 972
Fair value changes of the hedged items in portfolio hedge of interest rate risk	25	30 661	63 859
Investments in subsidiaries. joint ventures and associates		94 590	93 630
Tangible assets		864 132	779 657
Tangible fixed assets	27	238 945	187 052
Investment properties	28	625 187	592 605
Intangible assets	29	67 986	48 833
Tax assets	30	779 892	775 498
Current Tax Assets		35 653	610
Deferred Tax Assets		744 239	774 888
Other assets	31	2 442 550	2 944 292
Non-current assets and disposal groups classified as held for sale	32	9 373	1 559 518
Total Assets		**44 618 515**	**44 395 586**
Liabilities			
Financial liabilities held for trading	23	306 054	554 791
Financial liabilities measured at amortised cost	33	40 215 994	37 808 767
Deposits from banks		10 745 155	10 102 896
(of which. Repurchase Agreement)		1 529 847	1 625 724
Due to customers		27 582 093	26 322 060
Debt securities issued. Subordinated debt and liabilities associated to transferred assets		1 514 153	1 017 928
Other financial liabilities		374 593	365 883
Derivatives – Hedge accounting	25	44 460	72 543
Provisions	34	442 834	384 382
Tax liabilities	30	15 297	14 324
Current Tax liabilities		12 262	9 203
Deferred Tax Liabilities		3 035	5 121
Other liabilities	35	443 437	417 762
Liabilities included in disposal groups classified as held for sale	32	968	1 996 382
Total Liabilies		**41 469 044**	**41 248 951**
Equity			
Capital	36	6 054 907	5 900 000
Accumulated other comprehensive income	37	(1 045 489)	(823 420)
Retained earnings	37	(8 576 860)	(7 202 828)
Other reserves	37	6 501 374	6 570 154
Profit or loss attributable to Shareholders of the parent		184 504	(1 329 317)
Minority interests (Non-controlling interests)	37	31 035	32 046
Total Equity		**3 149 471**	**3 146 635**
Total Liabilities and Equity		**44 618 515**	**44 395 586**

The accompanying explanatory notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2021 AND 2020

(in thousands of Euros)

	Notes	Share Capital	Other Comprehensive Income	Retained earnings	Other reserves	Net profit/ (loss) of the year attributable to equity holders of the parent	Non-controlling interests		Total
							Other Comprehensive Income	Other	
Balance as at 31 December 2019		**5 900 000**	**(702 311)**	**(6 115 245)**	**5 942 501**	**(1 058 812)**	**(32 912)**	**69 536**	**4 002 757**
Other Increase / Decrease in Equity		**-**	**-**	**(1 087 583)**	**627 653**	**1 058 812**	**-**	**5 496**	**604 378**
Appropriation to retained earnings of net profit / (loss) of the previous year		-	-	(1 087 584)	28 772	1 058 812	-	-	-
Reserve of Contingent Capital Agreement		-	-	-	596 315	-	-	-	596 315
Other movements		-	-	1	2 566	-	-	5 496	8 063
Total comprehensive income for the year		**-**	**(121 109)**	**-**	**-**	**(1 329 317)**	**(10 074)**	**-**	**(1 460 500)**
Changes in fair value, net of tax		-	12 729	-	-	-	-	-	12 729
Foreign exchange differences, net of tax		-	(1 518)	-	-	-	-	-	(1 518)
Remeasurement of defined benefit plans, net of tax		-	(124 331)	-	-	-	-	-	(124 331)
Other comprehensive income appropriated from associated companies		-	(2 048)	-	-	-	-	-	(2 048)
Variation in the credit risk of financial liabilities at fair value, net of taxes		-	10 883	-	-	-	-	-	10 883
Reserves of impairment of securities at fair value through OCI		-	(1 852)	-	-	-	-	-	(1 852)
Reserves of sales of securities at fair value through OCI		-	(14 972)	-	-	-	-	-	(14 972)
Net profit / (loss) for the year		-	-	-	-	(1 329 317)	(10 074)	-	(1 339 391)
Balance as at 31 December 2020		**5 900 000**	**(823 420)**	**(7 202 828)**	**6 570 154**	**(1 329 317)**	**(42 986)**	**75 032**	**3 146 635**
Balance as at 31 December 2020		**5 900 000**	**(823 420)**	**(7 202 828)**	**6 570 154**	**(1 329 317)**	**(42 986)**	**75 032**	**3 146 635**
Capital increase by incorporation of special reserve for deferred taxes	34	154 907	-	-	(154 907)	-	-	-	-
Other Increase / (Decrease) in Equity		**-**	**-**	**(1 374 032)**	**86 127**	**1 329 317**	**-**	**(8 696)**	**32 716**
Appropriation to retained earnings of net profit / (loss) of the previous year		-	-	(1 374 246)	44 929	1 329 317	-	-	-
Reserve of Contingent Capital Agreement	35	-	-	-	39 920	-	-	-	39 920
Other movements		-	-	214	1 278	-	-	(8 696)	(7 204)
Total comprehensive income for the year		**-**	**(222 069)**	**-**	**-**	**184 504**	**7 685**	**-**	**(29 880)**
Changes in fair value, net of tax	35	-	(125 801)	-	-	-	-	-	(125 801)
Foreign exchange differences, net of tax		-	95	-	-	-	-	-	95
Remeasurement of defined benefit plans, net of tax	16	-	(75 584)	-	-	-	-	-	(75 584)
Other comprehensive income appropriated from affiliates		-	(252)	-	-	-	-	-	(252)
Reserves of impairment of securities at fair value through OCI	35	-	12	-	-	-	-	-	12
Reserves of sales of securities at fair value through OCI	35	-	(20 539)	-	-	-	-	-	(20 539)
Net profit/(loss) of the year		-	-	-	-	184 504	7 685	-	192 189
Balance as at 31 December 2021		**6 054 907**	**(1 045 489)**	**(8 576 860)**	**6 501 374**	**184 504**	**(35 301)**	**66 336**	**3 149 471**

The accompanying explanatory notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOW FOR THE YEARS ENDED 31 DECEMBER 2021 AND 2020

(in thousands of Euros)

	Notes	31.12.2021	31.12.2020
Cash flows from operating activities			
Interest received		678 735	727 929
Interest paid		(160 704)	(239 957)
Fees and commissions received		325 537	314 412
Fees and commissions paid		(47 357)	(47 304)
Recoveries on loans previously written off		27 293	30 181
Contributions to the pension fund		(86 708)	(269 419)
Contributions to resolution funds and deposit guarantee		(40 535)	(35 048)
Cash payments to employees and suppliers		(330 884)	(392 640)
		365 777	**88 154**
Changes in operating assets and liabilities:			
Deposits with / from Central Banks		972 363	915 128
Financial assets mandatorily at fair value through profit or loss		290 095	(453 921)
Financial assets designated at fair value through profit or loss		93 984	173
Financial assets at fair value through other comprehensive income		479 439	802 686
Financial assets at amortised cost		(344 041)	478 647
Debt securities		(129 026)	(654 460)
Loans and advances to banks		59 242	64 756
Loans and advances to customers		(274 257)	1 068 351
Financial liabilities at amortised cost		927 928	(2 696 827)
Deposits from banks		(331 734)	(655 784)
Due to customers		1 259 662	(2 041 043)
Derivatives - Hedge accounting		(1 552)	(3 151)
Other operating assets and liabilities		(565 133)	830 403
Net cash from operating activities before corporate income tax		**2 218 460**	**(38 708)**
Corporate income taxes paid		(35 560)	(22 645)
Net cash from operating activities		**2 182 900**	**(61 353)**
Cash flows from investing activities			
Acquisition of investments in subsidiaries and associated companies		(4)	(2 919)
Sale of investments in subsidiaries and associated companies		365	58 283
Dividends received		11 096	16 478
Acquisition of investment properties		(4 973)	(11 966)
Sale of investment properties		100 028	67 581
Acquisition of tangible fixed assets		(81 973)	(48 285)
Sale of tangible fixed assets		424	4 566
Acquisition of intangible assets		(25 696)	(26 866)
Sale of intangible assets		-	6 013
Net cash from investing activities		(733)	62 885
Cash flows from financing activities			
Contingent Capital Agreement		429 013	1 035 016
Emissão de obrigações e outros passivos titulados		575 000	-
Repayment of bonds and other liabilities		(11 834)	(189 913)
Net cash from financing activities		992 179	845 103
Net changes in cash and cash equivalents		3 174 346	846 635
Cash and cash equivalents at the beginning of the year		2 432 237	1 585 602
Net changes in cash and cash equivalents		3 174 346	846 635
Cash and cash equivalents at the end of the year		5 606 583	2 432 237
Cash and cash equivalents include:			
Cash	22	151 699	149 205
Deposits with Central Banks	22	5 264 629	2 292 797
(of which, Restricted balances)		(264 955)	(263 222)
Deposits with banks	22	455 210	253 457
Total		**5 606 583**	**2 432 237**

The accompanying explanatory notes are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2021

(Amounts expressed in thousands of Euro, except when otherwise indicated)

NOTE 1 – ACTIVITY AND GROUP STRUCTURE

Novo Banco, S.A. is the main entity of the financial novobanco Group focused on the banking activity, having been incorporated on the 3rd of August 2014 per deliberation of the Board of Directors of Bank of Portugal (the Central Bank of Portugal) dated 3rd of August 2014 (8 p.m.), under No. 5 of article 145-G of the General Law on Credit Institutions and Financial Companies ("*Regime Geral das Instituições de Crédito e Sociedades Financeiras*" (RGICSF)) , approved by Decree-Law No. 298/92, of 31 December, following the resolution measure applied by Bank of Portugal to *Banco Espírito Santo, S.A.* (BES), under the terms of paragraphs 1 and 3-c) of article 145-C of the RGICSF, from which resulted the transfer of certain assets, liabilities and off-balance sheet elements as well as assets under management of BES from BES to novobanco (novobanco or Bank).

As a result of the resolution measure applied, *Fundo de Resolução* ("Resolution Fund") became the sole owner of the share capital of novobanco, in the amount of Euro 4,900 million, which acquired the status of a transition Bank, with a limited duration, due to the commitment assumed by the Portuguese State with the European Commission to sell its shares within two years from the date of its incorporation, extendable for one year.

On 31 March 2017, the Resolution Fund signed the sale agreement of novobanco. On 18 October 2017, the sale process was concluded, following the acquisition of the majority (75%) of its share capital by Nani Holdings, SGPS, SA, a company belonging to the North American group Lone Star, through two share capital increases in the amount of Euro 750 million and Euro 250 million, in October and December, respectively.

With the conclusion of the sale process, novobanco ceased to be considered a transition Bank and began to operate normally, although still being subject to certain measures restricting its activity, imposed by the European Competition Authority.

Since 18 October 2017 the financial statements of novobanco are consolidated by Nani Holdings SGPS, S.A., with registered office at Avenida D. João II, No. 46, 4A, Lisbon. LSF Nani Investments S.à.r.l., headquartered in Luxembourg, is the parent company of the Group.

NOVO BANCO, S.A. has its registered office in Lisbon, at Avenida da Liberdade, No. 195.

novobanco Group (hereinafter also designated as Group or novobanco Group) has a retail network comprising 311 branches in Portugal and abroad (31 December 2020: 359 branches), including branches in Spain and Luxembourg, and 4 representative offices in Switzerland (31 December 2020: 4 representative offices).

Group companies in which the Bank has a direct or indirect holding higher or equal to 20%, over which the Bank exercises control or significant influence, and that were included in the consolidation perimeter, are presented below.

1. References made to RGICSF refer to the version in force at the date of the resolution measure. The current version of the RGICSF has suffered changes, namely in article 145, following the publication of Law 23-A 2015, of 26 March, that came into force on the day following its publication.

The entities directly consolidated into novobanco are the following:

	Year of incorporation	Year acquired	Registered office	Activity	Share-holding %	Consolidation method
NOVO BANCO, SA	2014	-	Portugal	Commercial Banking		
Novo Banco dos Açores, SA (novobanco Açores)	2002	2002	Portugal	Commercial Banking	57,53%	Full consolidation
BEST - Banco Electrónico de Serviço Total, SA (BEST)	2001	2001	Portugal	Electronic banking	100.00%	Full consolidation
NB África, SGPS, SA	2009	2009	Portugal	Holding	100.00%	Full consolidation
GNB - Gestão de Ativos, SGPS, SA (GNB GA)	1992	1992	Portugal	Holding	100.00%	Full consolidation
ES Tech Ventures, S.G.P.S., SA (ESTV)	2000	2000	Portugal	Holding	100.00%	Full consolidation
NB Finance, Ltd. (NBFINANCE)	2015	2015	Cayman Islands	Issue and distribution of securities	100.00%	Full consolidation
GNB Concessões, SGPS, SA (GNB CONCESSÕES)	2002	2003	Portugal	Holding	100.00%	Full consolidation
Espírito Santo Representações, Ltda. (ESREP)	1996	1996	Brazil	Representation services	99,99%	Full consolidation
Aroleri, SLU	2021	2021	Spain	Real estate development	100.00%	Full consolidation
Fundo de Capital de Risco NOVO BANCO PME Capital Growth	2009	2009	Portugal	Venture capital fund	100.00%	Full consolidation
Fundo FCR PME / NOVO BANCO	1997	1997	Portugal	Venture capital fund	56.78%	Full consolidation
Fundo de Gestão de Património Imobiliário - FUNGEPI - Novo Banco	1997	2012	Portugal	Real Estate Fund	100.00%	Full consolidation
Fundo de Gestão de Património Imobiliário - FUNGEPI - Novo Banco II	2011	2012	Portugal	Real Estate Fund	100.00%	Full consolidation
FUNGERE - Fundo de Gestão de Património Imobiliário	1997	2012	Portugal	Real Estate Fund	95.28%	Full consolidation
ImoInvestimento – Fundo Especial de Investimento Imobiliário Fechado	2012	2012	Portugal	Real Estate Fund	100.00%	Full consolidation
Prediloc Capital – Fundo Especial de Investimento Imobiliário Fechado	2006	2012	Portugal	Real Estate Fund	100.00%	Full consolidation
Imogestão – Fundo de Investimento Imobiliário Fechado	2006	2013	Portugal	Real Estate Fund	100.00%	Full consolidation
Arrábida - Fundo Especial de Investimento Imobiliário Fechado	2006	2013	Portugal	Real Estate Fund	100.00%	Full consolidation
Invesfundo VII – Fundo de Investimento Imobiliário Fechado	2008	2013	Portugal	Real Estate Fund	100.00%	Full consolidation
NB Logística - Fundo Especial de Investimento Imobiliário Aberto	2007	2012	Portugal	Real Estate Fund	92.49%	Full consolidation
NB Património - Fundo de Investimento Imobiliário Aberto	1992	2014	Portugal	Real Estate Fund	56.33%	Full consolidation
Fundes - Fundo Especial Investimento Imobiliário Fechado	2008	2015	Portugal	Real Estate Fund	100.00%	Full consolidation
NB Arrendamento - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	2009	2012	Portugal	Real Estate Fund	100.00%	Full consolidation
Fimes Oriente - Fundo de Investimento Imobiliário Fechado	2004	2012	Portugal	Real Estate Fund	100.00%	Full consolidation
Fundo de Investimento Imobiliário Fechado Amoreiras	2006	2015	Portugal	Real Estate Fund	95.24%	Full consolidation
Novimove - Fundo de Investimento Imobiliario Fechado	2004	2019	Portugal	Real Estate Fund	100.00%	Full consolidation
Five Stars - Fundo Especial de Investimento Imobiliário Fechado	2006	2019	Portugal	Real Estate Fund	100.00%	Full consolidation
Febagri-Actividades Agropecuárias e Imobiliárias SA	2006	2012	Portugal	Real Estate development	100.00%	Full consolidation
Autodril - Sociedade Imobiliária, SA	1998	2012	Portugal	Real Estate development	100.00%	Full consolidation
JCN - IP - Investimentos Imobiliários e Participações, SA	1995	2012	Portugal	Real Estate development	95.28%	Full consolidation
Greenwoods Ecoresorts empreendimentos imobiliários, SA	2012	2012	Portugal	Real Estate development	100.00%	Full consolidation
Sociedade Imobiliária Quinta D. Manuel I, SA	2012	2012	Portugal	Real Estate development	100.00%	Full consolidation
Sociedade Agrícola Turística e Imobiliária da Várzea da Lagoa, SA	2012	2012	Portugal	Real Estate development	100.00%	Full consolidation
Imalgarve - Sociedade de Investimentos Imobiliários, SA	1986	2014	Portugal	Real Estate development	100.00%	Full consolidation
Herdade da Boina - Sociedade Imobiliária	1999	2012	Portugal	Real Estate development	100.00%	Full consolidation
Ribagolfe - Empreendimentos de Golfe, SA	1995	2012	Portugal	Golf course operations	100.00%	Full consolidation
Benagil - Promoção Imobiliária, SA	1970	2012	Portugal	Real Estate development	100.00%	Full consolidation
Fundo de Investimento Imobiliário Fechado Quinta da Ribeira	2006	2017	Portugal	Real Estate Fund	100.00%	Full consolidation
Promofundo - Fundo Especial de Investimento Imobiliário Fechado	2008	2018	Portugal	Real Estate Fund	100.00%	Full consolidation
Herdade da Vargem Fresca VI - Comércio e Restauração SA	1997	2012	Portugal	Catering	95.28%	Full consolidation
Locarent - Companhia Portuguesa de Aluguer de Viaturas, SA (LOCARENT)	2003	2003	Portugal	Renting	50.00% b)	Equity method
UNICRE - Instituição Financeira de Crédito, SA	1974	2010	Portugal	Non banking financing	17.50% a)	Equity method
Edenred Portugal, SA	1984	2013	Portugal	Services provider	50.00% b)	Equity method
ESEGUR - Empresa de Segurança, SA (ESEGUR)	1994	2004	Portugal	Private security services	44.00%	Equity method
Multipessoal Recursos Humanos - SGPS, S.A	1993	1993	Portugal	Management of shareholdings	22.52%	Equity method

a) The percentage presented above reflects the Group's economic interest. These entities were included in the consolidated balance sheet through the equity method as the Group exercises significant influence over their activities

b) Entities consolidated under the equity method as the voting rights grant control to the other shareholders

Subgroups:

	Year of incorporation	Year acquired	Registered office	Activity	Share-holding %	Consolidation method
GNB - Gestão de Ativos, SGPS, SA (GNB GA)	**1992**	**1992**	**Portugal**	**Holding**	**100,00%**	**Full consolidation**
GNB Fundos Mobiliários - Sociedade Gestora de Organismos de Investimento Coletivo, SA	1987	1987	Portugal	Investment Funds management	100,00%	Full consolidation
GNB Real Estate - Sociedade Gestora de Organismos de Investimento Coletivo, SA	1992	1992	Portugal	Investment Funds management	100,00%	Full consolidation
GNB - Sociedade Gestora de Fundos de Pensões, SA	1989	1989	Portugal	Investment Funds management	100,00%	Full consolidation
Espírito Santo International Asset Management, Ltd.	1998	1998	British Virgin Islands	Investment Funds management	50,00% b)	Equity method
GNB - Sociedade Gestora de Patrimónios, SA	1987	1987	Portugal	Wealth management	100,00%	Full consolidation
GNB - International Management, SA	1995	1995	Luxembourg	Investment Funds management	100,00%	Full consolidation
ES Tech Ventures, S.G.P.S., SA (ESTV)	**2000**	**2000**	**Portugal**	**Holding**	**100,00%**	**Full consolidation**
Yunit Serviços, SA	2000	2000	Portugal	Internet portal management	33,33%	Equity method
Fundo de Capital de Risco NOVO BANCO PME Capital Growth	**2009**	**2009**	**Portugal**	**Venture capital fund**	**100,00%**	**Full consolidation**
Righthour, SA	2013	2013	Portugal	Services	100,00%	Full consolidation
Fundo FCR PME / NOVO BANCO	**1997**	**1997**	**Portugal**	**Venture capital fund**	**56,78%**	**Full consolidation**
Epedal - Indústria de Componentes Metálicos, S.A.	1981	2015	Portugal	Holding	12,22% a)	Equity method
Nexxpro - Fábrica de Capacetes, S.A.	2001	2015	Portugal	Helmet manufacturing	38,99% a)	Equity method
Cristalmax – Indústria de Vidros, S.A.	1994	2017	Portugal	Glass manufacturing	18,96% a)	Equity method
Ach Brito & Ca, SA	1918	2015	Portugal	Soap manufacturing	8,77% a)	Equity method
M. N. Ramos Ferreira, Engenharia, SA	1983	2013	Portugal	Engeneering	8,11% a)	Equity method
GNB Concessões, SGPS, SA (GNB CONCESSÕES)	**2002**	**2003**	**Portugal**	**Holding**	**100,00%**	**Full consolidation**
Lineas – Concessões de Transportes, SGPS, SA	2008	2010	Portugal	Holding	40,00% a)	Equity method

a) The percentage presented above reflects the Group's economic interest. These entities were included in the consolidated balance sheet through the equity method as the Group exercises significant influence over their activities
b) Entities consolidated under the equity method as the voting rights grant control to the other shareholders

Additionally, and considering the requirements of IFRS 10, the Group's consolidation perimeter includes the following structured entities:

	Year of incorporation	Year acquired	Registered office	Share-holding %	Consolidation method
Lusitano Mortgages No.6 plc (*)	2007	2007	Ireland	100%	Full consolidation
Lusitano Mortgages No.7 plc (*)	2008	2008	Ireland	100%	Full consolidation

(*) - Structured entities set up in the scope os securitization operations, recorded in the consolidated financial statements in accordance with the continued involvement of the Group in these operations, determined based on the percentage of the equity pieces held of the respective vehicles (see Note 41)

During 2021, the main changes in novobanco Group's structure were as follows:

Subsidiaries and branches

- In February 2021, Imoinvestimento Fund granted additional supplementary payments to the real estate companies Quinta D. Manuel I, Várzea da Lagoa and Promotur in the amounts of Euro 50 thousand, Euro 110 thousand and Euro 260 thousand, respectively;
- In March 2021, GNB - Serviços de Suporte Operacional, ACE was dissolved, with no impact on the income statement;
- In July 2021, GNB – Recuperação de Crédito, ACE was dissolved, with no impact on the income statement;
- In July 2021, the real estate company Imoascay was liquidated, with no impact on the income statement;
- In September 2021, the real estate fund ASAS Invest was liquidated, with no impact on the income statement;
- In September 2021, FCR PME NB Fund partially redeemed participation units in the total amount of Euro 1,550 thousand, with novobanco receiving Euro 941 thousand;

- In October 2021, the redemption of Fungepi's participation units in the amount of Euro 45,000 thousand was carried out;
- In October 2021, the redemption of NB Arrendamento participation units in the amount of Euro 500 thousand was carried out;
- In November 2021, a capital increase of Euro 9,216 thousand in NB Logística was carried out, fully subscribed by novobanco and Fungepi, through the delivery of real estate properties;
- In November 2021, a redemption of participation units of Novimove in the amount of Euro 1,250 thousand was carried out;
- In November 2021, the real estate company Promotur was liquidated, with no impact on the income statement;
- In November 2021, a 100% equity stake in Aroleri, SLU was acquired for Euro 4 thousand;
- In December 2021, the real estate company Quinta da Areia was liquidated, with no impact on the income statement;
- In December 2021, there were two capital increases of Fungepi II in the amount of Euro 24,090 thousand and Euro 11,696 thousand, fully subscribed by novobanco and through the delivery of real estate properties, and a capital reduction of Euro 70,932 thousand;
- In December 2021, the capital of Five Stars was increased in the amount of Euro 26,006 thousand, fully subscribed and paid up by novobanco.

novobanco holds in its balance sheet mandatorily convertible securities (VMOC) from two entities obtained through foreclosed credit, measured at the fair value which was estimated to be zero. The extension of the conversion period of these VMOC into shares ended during the month of December 2021. The Group contests this conversion, having addressed to these securities issuers, letters of formal notice for payment of the amounts. The amounts of assets to be recognized in the consolidated financial statements resulting from a possible consolidation process could amount to Euro 2.4 million, however, on this date, novobanco does not have information that allows the accurate determination of the value of goodwill to be recognized in the financial statements. For this reason, the Group is within the measurement period and continues to provisionally record the fair value of the VMOC in the balance sheet. The measurement period will end when the Group has clarified all the facts and circumstances related to the eventual conversion of the VMOC, on the possible need to recognize assets and liabilities and to be able to measure goodwill, and this measurement period must not exceed the period of one year.

Associated companies

In September 2021, FCR PME NB Fund sold its stake in LOGI C - Logística Integrada, SA, recording a capital gain of Euro 84 thousand.

During the financial year of 2020, the main changes in novobanco Group's structure were as follows:

Subsidiaries and branches

- In April 2020, novobanco sold the entire participation and supplementary contributions of Herdade do Pinheirinho and Herdade do Pinheirinho II, recording a gain of Euro 209 thousand.
- In September 2020, Orey Urban Rehabilitation Fund was liquidated;
- In November 2020, there was a capital reduction of the NB Arrendamento Fund in the amount of Euro 2,800 thousand;
- In December 2020, Solid and R Invest Funds, as well as Sociedade Portucale, were liquidated and the holding held in Sociedade Herdade da Vargem Fresca VI is now held directly by Fungere Fund;
- In December 2020, a capital increase of NB Logística Fund was carried out in the amount of Euro 23,200 thousand;
- In December 2020, there was a capital increase of Fungepi Fund in the amount of Euro 84,079 thousand, having been subscribed by the Fungepi II and Fundes Funds (Euro 12,787 thousand and Euro 71,292 thousand, respectively), with in-kind entry of real estate properties;
- In December 2020, a capital increase of Fungepi II Fund was carried out in the amount of Euro 1,444 thousand, having been subscribed by Fungepi Fund and by the entities Febagri and Imoascay (Euro 963 thousand, Euro 30 thousand and Euro 451 thousand, respectively) with in-kind entry of real estate properties.

Associated companies

- In June 2020, FCR PME NB converted a credit granted to Nexxpro in the amount of Euro 639 thousand into supplementary contributions.
- In June 2020, FCR PME NB sold its stake in Enkrott, at the balance sheet value;
- In December 2020, FCR PME NB converted a credit granted to Nexxpro in the amount of EUR 2,280 thousand into supplementary installments.
- In December 2020, Ijar Leasing made a capital increase, and novobanco did not accompany this operation, so the Group's participation in this Company went from 24.5% to 18.85%;
- In December 2020, the PNCB - Plataforma de Negociação Integrada de Créditos Bancários, A.C.E. has been extinct.

During 2021 and 2020, the movements relating to acquisitions, sales and other investments and repayments in subsidiary and associated companies are detailed as follows:

(in thousands of Euros)

31.12.2021	Acquisitions			Sales			
	Acquisition Value	Other Investments (a)	Total	Sale price	Other reimbursements (a)	Total	Gains/ Losses in sales/settlements
Subsidiary companies							
Quinta D. Manuel I	-	50	50	-	-	-	-
Várzea da Lagoa	-	110	110	-	-	-	-
Promotur	-	260	260	-	-	-	-
FCR PME NB	-	-	-	-	(4 427)	(4 427)	-
Fungepi II	-	41 493	41 493	-	(70 932)	(70 932)	-
Fungepi	-	-	-	-	(45 000)	(45 000)	-
NB Logística	-	9 216	9 216	-	-	-	-
NB Arrendamento	-	-	-	-	(500)	(500)	-
Novimove	-	-	-	-	(1 250)	(1 250)	-
Aroleri	4	600	604	-	-	-	-
Five Stars	-	26 006	26 006	-	-	-	-
	4	77 735	77 739	-	(122 109)	(122 109)	-
Associated companies							
LOGI C - Logística Integrada	-	-	-	365	-	365	84
	-	-	-	365	-	365	84
	4	**77 735**	**77 739**	**365**	**(122 109)**	**(121 744)**	**84**

(a) Capital increases/ decreases, supplementary capital, supplies, transactions involving the exchange of financial instruments and incorporation of companies

(in thousands of Euros)

31.12.2020	Acquisitions			Sales			
	Acquisition Value	Other Investments (a)	Total	Sale price	Other reimburseme nts (a)	Total	Gains/ Losses in sales/settlements
Subsidiary companies							
Herdade do Pinheirinho	-	-	-	14 996	-	14 996	4 284
Herdade do Pinheirinho II	-	-	-	44 744	-	44 744	(4 075)
NB Arrendamento	-	-	-	-	(2 800)	(2 800)	-
NB Logística	-	23 200	23 200	-	-	-	-
Fungepi	-	84 079	84 079	-	-	-	-
Fungepi II	-	1 444	1 444	-	-	-	-
Benagil	-	500	500	-	-	-	-
Ribagolfe	-	100	100	-	-	-	-
	-	109 323	109 323	59 740	(2 800)	56 940	209
Associated companies							
Nexxpro	-	2 919	2 919	-	-	-	-
Enkrott	-	-	-	1 134	-	1 134	-
	-	2 919	2 919	1 134	-	1 134	-
	-	**112 242**	**112 242**	**60 874**	**(2 800)**	**58 074**	**209**

(a) Capital increases/ decreases, supplementary capital, supplies, transactions involving the exchange of financial instruments and incorporation of companies

The subsidiaries classified under IFRS 5 as non-current assets held for sale and discontinued operations, are detailed in Note 32.

NOTE 2 – BASIS OF PRESENTATION

The consolidated financial statements of novobanco are presented as at 31 December 2021, expressed in thousands of euros, rounded to the nearest thousand. The accounting policies used by the Group in the preparation are consistent with those used in the preparation of the financial statements as of December 31, 2020. The changes to the most relevant accounting policies are described in Note 5.

The consolidated financial statements of novobanco have been prepared under the assumption of continuity of operations from the accounting records and following the historical cost convention, except for the assets and liabilities accounted for at fair value, namely derivative financial instruments, financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, investment properties and hedged assets and liabilities, in respect of their hedged component.

The consolidated financial statements and the Management Report of 31 December 2021 were approved at the Executive Board of Directors' meeting held on March 2, 2022 and will be submitted to the General Assembly of Shareholders, which has the power to justifiably decide to change them. However, it is Executive Board of Directors conviction that these consolidated financial statements will be approved without changes.

NOTE 3 –STATEMENT OF COMPLIANCE

The consolidated financial statements of novobanco have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union in force on January 1, 2021, under Regulation (EC) nº 1606/2002 of the European Parliament and of the Council, of July 19, 2002, and Notice nº 5/2015 of Bank of Portugal.

IFRS comprise accounting standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC) and its predecessor body the Standing Interpretations Committee (SIC).

NOTE 4 – PRESENTATION OF FINANCIAL STATEMENTS

The Group presents its statement of financial position in order of liquidity based on the Group's intention and perceived ability to recover/settle the majority of assets/liabilities of the corresponding financial statement line item.

An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (noncurrent) is presented throughout the different balance sheet notes.

NOTE 5 – CHANGES IN ACCOUNTING POLICIES

In the preparation of its financial statements with reference to December 31, 2021, the Group did not early adopt any new standard, interpretation or amendment issued, but not yet in force. The changes to the standards adopted by the Group are as follows:

Norms, interpretations, amendments, and revisions that came into force in the fiscal year
The following norms, interpretations, amendments, and revisions adopted ("endorsed") by the European Union have mandatory application for the first time in the fiscal year beginning January 1, 2021:

Standard / Interpretation	Description
Amendments to IFRS 16 - Leases - COVID-19 Related Concessions for Rentals Beyond June 30, 2021	On May 28, 2020, the amendment to IFRS 16 entitled 'Covid-19 Related Concessions' was issued and introduced the following practical expedient: a lessee may elect not to assess whether a Covid-19 related concession of rent is a lease modification. Lessees that choose to apply this expedient, account for the change to rental payments resulting from a Covid-19 related concession in the same way as they account for a change that is not a lease modification under IFRS 16. Initially, the practical expedient applied to payments originally due by June 30, 2021, however, due to the extended impact of the pandemic, on March 31, 2021, it was extended to payments originally due by June 30, 2022. The change applies to annual reporting periods beginning on or after April 1, 2021. In short, the practical expedient can be applied provided the following criteria are met: • the change in lease payments results in a revised consideration for the lease that is substantially equal to, or less than, the consideration immediately prior to the change; • any reduction in lease payments only affects payments due on or before June 30, 2022; and • there are no significant changes to other terms and conditions of the lease.
Amendments to IFRS 4 - Insurance Contracts Deferral of IFRS 9	This amendment refers to the temporary accounting consequences that result from the difference between the effective date of IFRS 9 - Financial Instruments and the future IFRS 17 - Insurance Contracts. Specifically, the amendment made to IFRS 4 postpones until January 1, 2023 the expiry date of the temporary exemption from the application of IFRS 9 in order to align the effective date of the latter with that of the new IFRS 17. This temporary exemption is optional to apply and is only available to entities whose activities are predominantly insurance related.
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - Reform of benchmark interest rates - phase 2	These amendments are part of the second phase of the IASB's "IBOR reform" project and allow for exemptions related to reforming the benchmark for benchmark interest rates by an alternative interest rate (Risk Free Rate (RFR)). The amendments include the following practical expedients: • A practical expedient that requires contractual changes, or changes in cash flows that are directly required by the reform, to be treated the same as a floating interest rate change, equivalent to a movement in the market interest rate; • Allow changes required by the reform to be made to hedge designations and hedge documentation without discontinuing the hedging relationship; • Provide temporary operational relief to entities that must comply with the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

These standards and changes had no material impact on the Group's financial statements.

NOTE 6 – BASIS OF CONSOLIDATION

These consolidated financial statements comprise the assets, liabilities, income, expenses, other comprehensive income, and cash flows of novobanco and of its subsidiaries (Group or novobanco Group) and the results attributable to the Group relating to shareholdings in associated companies.

These accounting policies have been consistently applied to all the Group companies during the financial years covered by these consolidated financial statements.

Subsidiaries

Subsidiaries are entities (including investment funds and securitization vehicles) over which the Group exercises control. The Group controls an entity when it is exposed, or has rights, to the variability of the return deriving from its involvement with that entity and may take possession of same by way of the power it has over the entity (de facto control) and has the ability to affect these variable returns through the power it held over the relevant activities of the entity. As provided in IFRS 10, the Group analyses the objective and the structuring of how an entity's operations are developed when assessing its control over such entity. Subsidiaries are fully consolidated from the date on which control over their activities is transferred to the Group and until the date that control ceases. Holdings of third parties in these entities are presented in the caption Non-controlling interests, except for open investment funds in which these values are presented in the caption Other liabilities, due to the high probability of their redemption or the limited duration that requires the delivery of values to the remaining participants.

The accumulated losses of a subsidiary are attributed proportionally to non-controlling interests even if this results in the recognition of non-controlling interests of a negative value.

Gains or losses arising from the dilution or sale of a portion of the financial interest in a subsidiary, with loss of control, are recognized by the Group in the income statement.

When control is obtained in a business combination achieved in stages (step acquisition) the Group remeasures its previously held non-controlling interest in the entity at its fair value and recognizes the resulting gain or loss in the income statement upon determining the respective goodwill. At the moment of a partial sale, resulting in the loss of control of a subsidiary, any remaining non-controlling interest retained is remeasured to its fair value at the date the control is lost, and the resulting gain or loss is recognized in the income statement.

The entity identified as acquirer or incorporator integrates the results of the entity/ business acquired as from the date of its acquisition, that is, from the date of the takeover of control.

The accounting treatment of mergers by incorporation, between entities under common control, follows the same principles - the integration of the assets and liabilities of the entity to be incorporated is carried out at the amounts presented in the consolidated financial statements of the entity that has control over the two entities, at the highest level of the Group's financial holdings chain (the "predecessor"). The difference between the carrying book value of the incorporated assets and liabilities and the amount of the financial investment is recognized as a merger reserve.

Associated companies

Associated companies are those entities over which the Group has significant influence over the company's financial and operating policies, but not its control. Generally, when the Group owns more than 20% of the voting rights but less than 50%, it is presumed to have a significant influence. Even if the Group owns less than 20% of the voting rights, it can still have a significant influence through its participation in the management of the associated company or its representation in its executive Management bodies.

Investments in associated companies are recorded in the consolidated financial statements of the Bank using the equity method of accounting from the date on which significant influence is attained by the Group and until the date that significant influence ceases. The carrying value of the investments in associated companies includes the value of the respective goodwill determined at the acquisition date and is presented net of impairment losses. The Group carries out impairment tests on its investments in associated companies, whenever there are any indications of impairment. Impairment losses recognized in prior years may be reversed, up to the limit of the accumulated losses.

In a step acquisition that results in the Group obtaining significant influence over an entity, any previously held stake in that entity is remeasured to its fair value through the income statement when the equity method is first applied

When the Group's share of losses of an associated company equals or exceeds its interest in the associated company, including any medium and long-term interest, the Group discontinues the application of the equity method, except when it has a legal or constructive obligation to cover those losses or has made payments on behalf of the associated company.

Gains or losses on disposals of shares in associated companies are recognized in the income statement even if those disposals do not result in the loss of significant influence. Dividends attributed by associated companies reduce the balance sheet value recognized by the Group.

Structured Entities (SE)

The Group consolidates, using the full consolidation method, certain special purpose entities, created specifically to accomplish a narrow and well-defined objective, when the substance of the relationship with those entities indicates that they are controlled by the Group, irrespective of the percentage of the equity held.

The evaluation of the existence of control is made based on the established by IFRS 10 – Consolidated Financial Statements, according to which a SE is controlled if (i) the Group is exposed or has rights to its results; and (ii) the Group has the power to affect the SE's results through the control it exercises over them.

Investment funds managed by the Group

As part of its asset management activity, the Group manages investment funds on behalf of the holders of the participation units. The financial statements of these funds are not consolidated by the Group except in the cases where control is exercised over their activity, according to the criteria established by IFRS 10.

Goodwill

Goodwill represents the difference between the acquisition cost and the fair value of the Group's share of identifiable net assets, liabilities and contingent liabilities acquired.

Business combinations occurring after 31 December 2009 were accounted for using the purchase method. The acquisition cost includes the fair values: i) of the assets transferred, ii) of the liabilities assumed by the acquirer before the previous shareholders of the acquired, and iii) of the equity instruments issued.

In accordance with IFRS 3, the Group measures goodwill as the difference between the fair value of the consideration transferred including the fair value of any non-controlling interest previously held, and the fair value attributable to the assets acquired and the liabilities assumed, and any equity instruments issued. The fair values are determined at the acquisition date. The costs directly attributable to the acquisition are expensed at the moment of the acquisition.

As at the acquisition date, the non-controlling interests are measured at their proportional interest in the fair value of the net identifiable assets acquired and liabilities assumed, without their respective portion of goodwill. As a result, the goodwill recognized in these consolidated financial statements corresponds solely to the portion attributable to the shareholders of the Bank.

In accordance with IFRS 3 – Business Combinations, positive goodwill is recognized as an asset at its cost and is not amortised. Goodwill relating to the acquisition of associated companies is included in the carrying book value of the investments in those associated companies, determined using the equity method. Negative goodwill is recognized directly in the income statement in the period the business combination occurs. Impairment losses of goodwill may not be reversed in the future.

For business combinations that are not completed at the end of the reporting period, the Group estimates the provisional amounts of assets and liabilities to be included in the consolidated financial statements, including the related goodwill. During the measurement period, which does not exceed one year from the acquisition date, the provisional amounts recognized will be retrospectively adjusted to reflect new information obtained, including the recognition of additional assets or liabilities.

Goodwill is tested for impairment annually and whenever circumstances indicate that its book value may be impaired. Any impairment losses determined are recognized in the income statement. The recoverable amount reduction is determined by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill refers. When the recoverable amount of the cash-generating unit is less than it's carrying amount, an impairment loss is recognized. Impairment losses related to goodwill cannot be reversed in future periods.

Transactions with non-controlling interests

Acquisitions of non-controlling interests that do not result in a change in control over a subsidiary are accounted for as transactions with shareholders and, therefore, no additional goodwill is recognized as a result of such transactions. Any difference between the acquisition cost and the carrying book value of the non-controlling interest acquired is recognized directly in reserves. Similarly, gains or losses arising from sale of non-controlling interests that do not result in a loss of control over a subsidiary, are always recorded against reserves.

Non-controlling interests for open investment funds are presented in the caption Other liabilities.

Balances and transactions eliminated with consolidation

Intercompany balances and transactions, including any unrealised gains and losses on transactions between Group companies, are eliminated in preparing the consolidated financial statements, unless the unrealised losses provide evidence of an impairment loss that should be recognized in the consolidated financial statements.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies. Unrealised losses are also eliminated unless the transactions reveal evidence of impairment.

The accounting policies of subsidiaries and associated companies are changed, whenever necessary, to ensure that same are applied consistently throughout the Group.

The financial statements of each of the Group entities that have a functional currency different from the Euro are translated into Euro in accordance with the following criteria:

- Assets and liabilities are translated using the exchange rate prevailing at the reporting date;
- Income and expenses are translated at exchange rates approximating the real rates ruling at the dates of the transactions;
- The exchange differences arising between the translation amount of the equity at the beginning of the period and the amount determined at the balance sheet date of the consolidated accounts, using the exchange rates applicable at that date, are recorded against reserves (other comprehensive income). Similarly, regarding the subsidiaries and associated companies' results, the exchange differences arising from the translation of income and expenses at the rates ruling at the dates of the transactions and that determined at the balance sheet date are recorded in reserves. When the entity is sold, such exchange differences are recognized in results as an integral part of the gain or loss on the disposal.

NOTE 7 – MAIN ACCOUNTING POLICIES

7.1. Foreign currency operations

7.1.1 Functional and presentational currency

The financial statements of each of the Group's subsidiaries and associated companies are prepared using their functional currency, which is defined as the currency of the primary economic environment in which that entity operates. The Group's consolidated financial statements are prepared in Euro, which is novobanco functional currency.

7.1.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into Euro at the foreign exchange rates ruling at the balance sheet date. Foreign exchange differences arising on this translation are recognized in the income statement.

Non-monetary assets and liabilities recorded at historical cost, denominated in foreign currency, are translated using the exchange rate prevailing at the transaction date. Non-monetary assets and liabilities, denominated in foreign currency, that are stated at fair value are translated into Euro at the foreign exchange rates ruling at the dates the fair value was determined. The resulting exchange differences are accounted for in the income statement, except if related to equity instruments classified as financial assets at fair value through other comprehensive income, which are recorded in equity reserves.

Foreign exchange differences relating to cash flow hedges and the hedging of the net investment in foreign operational units, when they exist, are recognized in other comprehensive income.

7.2. Recognition of interest income/expense

Interest income and expense is recognized in the income statement under interest and similar income and interest expense and similar charges for all financial instruments measured at amortised cost and for all financial assets at fair value through other comprehensive income, using the effective interest rate method. Interest arising on financial assets and liabilities at fair value through profit or loss is also included under interest and similar income or interest expense and similar charges, as appropriate.

The effective interest rate is the rate that discounts the estimated future cash payments or receipts throughout the expected life of the financial instrument or, when appropriate, a shorter period to the net book value of the financial asset or liability. The effective interest rate is calculated at inception and is not subsequently revised, except in respect of financial assets and liabilities with a variable interest rate. In this case, the effective interest rate is periodically revised, taking into consideration the impact of the change in the interest rate of reference on the estimated future cash flows.

When calculating the effective interest rate, the Group estimates the cash flows considering all the contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all the commissions that are an integral part of the effective interest rate, transaction costs and all other related premiums or discounts.

Interest and similar income include interest from financial assets for which were recognized impairment. The interest from financial assets classified as Stage 3 are determined based on the effective interest rate method applied to the net book value. When the asset is no longer classified as Stage 3, the interest is calculated based on the gross book value.

For derivative financial instruments, the interest component in the change in fair value of derivative financial instruments classified as fair value hedge and fair value option is recognized under interest income or interest expense. For other derivatives, the interest component inherent in the fair value change will not be separated and will be classified under the income statement of assets and liabilities held for trading (see note 7.5).

7.3. Recognition of fee and commission income

Fees and commissions income are recognized as revenue from customer contracts to the extent that performance obligations are met:

- Fees and commissions that are earned on the execution of a significant act, such as loan syndication fees, are recognized as income when the significant act has been completed;
- Fees and commissions earned over the period during which the services are provided are recognized as income in the financial year in which the services are provided;
- Fees and commissions that are an integral part of the effective interest rate of a financial instrument are recognized as income using the effective interest rate method, as described in note 7.2.

7.4. Recognition of dividend income

Dividend income is recognized when the right to receive the dividend payment is established.

7.5. Net trading income

Net income from financial assets and liabilities held for trading includes changes in fair value, interest or expenses and dividends, as well as income from derivatives held for economic hedging that do not qualify as hedging derivatives.

7.6. Net gain/ (loss) on financial assets and liabilities designated at fair value through profit or loss

Net gain or loss on financial assets and liabilities designated at fair value through profit or loss includes the net gain or loss from financial assets and financial liabilities designated as at fair value through profit or loss and also from non-trading assets measured at fair value through profit or loss, as required by or elected under IFRS 9. The line item includes fair value changes, interest, dividends and foreign exchange differences.

7.7. Net gain/ (loss) on derecognition of financial assets measured at amortized cost

Net loss on derecognition of financial assets measured at amortized cost includes loss (or income) recognized on sale or derecognition of financial assets measured at amortized cost calculated as the difference between the net book value (including impairment until the recoverable amount) and the proceeds received.

7.8. Financial Instruments – Initial recognition

7.8.1. Date of Recognition

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognised on the trade date, i.e., the date on which the Group becomes a party to the contractual provisions of the instrument. This includes regular way trades, i.e., purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace. Loans and advances to customers are recognized when funds are transferred to the customers' accounts. The Group recognizes balances due to customers when funds are transferred to the Group.

7.8.2. Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in note 7.10 Financial instruments are initially measured at their fair value (as defined in note 7.9), except in the case of financial assets and financial liabilities recorded at fair value through profit or loss, transaction costs are added to, or subtracted from, this amount. Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Group accounts for the Day 1 profit or loss, as described below.

7.8.3. Day one profit

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Group recognizes the difference between the transaction price and fair value in net trading income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognized in profit or loss when the inputs become observable, or when the instrument is derecognized

The Group recognizes in its income statement the gains arising from the intermediation fee (day one profit), which is generated, primarily, through currency and derivative financial product intermediation, given that the fair value of these instruments, both at inception and subsequently, is determined based solely on observable market data and reflects the Group's access to the (wholesale market).

7.8.4. Measurement categories for financial assets and liabilities

The Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortized cost, as explained in note 7.10.1;
- Fair Value Through Other Comprehensive Income, as explained in notes 7.10.1, 7.10.2 and 7.10.3;
- Fair Value Through Profit or Loss, as set out in note 7.10.4.
- Mandatorily measured at fair value through profit or loss, as set out in note 7.10.4.

The Group classifies and measures its derivative and trading portfolio at fair value through profit or loss, as explained in note 7.10.5. The Group may designate financial instruments at fair value through profit or loss, if so doing eliminates or significantly reduces measurement or recognition inconsistencies, as explained in note 7.10.6.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortized cost or at fair value through profit or loss when they are held for trading and derivative.

7.9. Fair value of financial assets and liabilities

The fair value of listed financial assets is determined based on the closing price (bid-price), the price of the last transaction made or the value of the last known price (bid). In the absence of quotation, the Group estimates fair value using (i) valuation methodologies, such as the use of prices for recent transactions, similar and carried out under market conditions, discounted cash flow techniques and customized option valuation models in order to reflect the particularities and circumstances of the instrument and (ii) valuation assumptions based on market information.

For the assets included in the level 3 of fair value hierarchy, whose quotation is provided by a third-party using parameters not observable in the market, the Group proceeds, when applicable, to a detailed analysis of the historical and liquidity performance of these assets, which may imply an additional adjustment to its fair value, as well as a result of additional internal or external valuations.

The following is a brief description of the type of assets and liabilities included in each level of the hierarchy and the corresponding form of valuation:

Quoted market prices (level 1)

This category includes financial instruments with market prices quoted on official markets and those with dealer price quotations provided by entities that usually disclose transaction prices for these instruments traded on active markets.

The priority in terms of which price is used is given to those observed on official markets; where there is more than one official market the choice falls on the main market on which those instruments are traded.

The Group considers market prices those disclosed by independent entities, assuming that these act for their own economic benefit and that such prices are representative of the active market, using, whenever possible, prices supplied by more than one entity (for a specific asset and/or liability). For the process of re-evaluating financial instruments, the Group analyses the various prices in order to select the one it considers most representative for the instrument under analysis. Additionally, when they exist, prices relating to recent transactions with similar financial instruments are used as inputs, being subsequently compared to those supplied by said entities to better justify the option taken by the Group in favour of a specific price.

This category includes, amongst others, the following financial instruments:

i. Derivatives traded on an organized market;

ii. Shares quoted on a stock exchange;

iii. Open investment funds quoted on a stock exchange;

iv. Closed investment funds whose subjacent assets are solely financial instruments listed on a stock exchange;

v. Bonds with observable market quotes;

vi. Financial instruments with market offers even if these are not available at the normal information sources (e.g. securities traded based on recovery rate).

Valuation models based on observable market parameters / prices (level 2)

In this category, the financial instruments are valued using internal valuation techniques, namely discounted cash flow models and option pricing models which imply the use of estimates and require judgments that vary in accordance with the complexity of the financial instruments. Notwithstanding, the Group uses as inputs in its models, observable market data such as interest rate curves, credit spreads, volatility and market indexes. This category also includes instruments with dealer price quotations, but which markets have a lower liquidity. Additionally, the Group also uses as observable market variables, those that result from transactions with similar instruments and that are observed with a certain regularity on the market.

This category includes, amongst others, the following financial instruments:

i. Bonds without observable market valuations valued using observable market inputs;

i. Derivatives (OTC) over-the-counter valued using observable market inputs; and

i. Unlisted shares valued using internal models using observable market inputs.

Valuation models based on unobservable market parameters (level 3)

This level uses models relying on internal valuation techniques or quotations provided by third parties, but which imply the use of non-observable market information. The bases and assumptions for the calculation of fair value are in accordance with IFRS 13.

This category includes, amongst others, the following financial instruments:

i. Debt securities valued using non-observable market inputs;

i. Unquoted shares;

i. Closed real estate funds;

i. Hedge funds;

i. Private equities;

i. Restructuring funds; and

i. Over the counter (OTC) derivatives with prices provided by third parties

710. Financial Assets and Liabilities

The Group initially classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms. This classification determines how the asset is measured after its initial recognition:

- Amortized cost: if it is held within a business model with the objective to hold financial assets in order to collect contractual cash flows that are solely payments of principal and interest (SPPI - solely payments of principal and interest);
- Fair value through other comprehensive income: if it is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets and the contractual cash flows fall under the scope of SPPI. In addition, upon initial recognition, the Group may choose to classify irrevocably equity instruments in the fair value through other comprehensive income portfolio being the changes in the fair value recognized in equity;
- Mandatorily measured at fair value through profit or loss: all cases not within the scope of SPPI;
- Measured at fair value through profit or loss: other financial instruments not included in the business models described above. If these assets are acquired for the purpose of trading in the short term, they are classified as held for trading.

7.10.1 Financial assets at amortized cost or accounted at fair value through other comprehensive income

In accordance with IFRS 9 - Financial Instruments, for a financial asset to be classified and measured at amortised cost or at fair value through other comprehensive income, it is necessary that:

i. The contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest (SPPI - solely payments of principal and interest) on the principal amount outstanding. Principal, for the purposes of this test is defined as the fair value of the financial asset at initial recognition. The contractual terms that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in stocks or commodity prices, do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at fair value through profit or loss;

ii. The financial asset is held within a business model with the objective to hold financial assets to maturity to collect contractual cash flows (financial assets at amortised cost) or to collect the contractual cash flows until maturity and selling the financial asset (financial assets at fair value through other comprehensive income). The assessment of the business models of the financial asset is fundamental for its classification. The Group determines the business models by financial asset groups according to how they are managed to achieve a particular business objective. The Group's business models determine whether cash flows will be generated by obtaining only contractual cash flows, from selling the financial assets or both. At initial recognition of a financial asset, the Group determines whether it is part of an existing business model or if it reflects a new business model. The Group reassesses its business models in each reporting period in order to determine whether there have been changes in business models since the last reporting period.

The above requirements do not apply to lease receivables, which meet the criteria defined in IFRS 16 – Leases.

Financial assets that are subsequently measured at amortised cost or at fair value through other comprehensive income are subject to impairment.

At initial recognition, financial assets at amortised cost are recorded at acquisition cost, and subsequently measured at amortised cost based on the effective interest rate. Interest, calculated at the effective interest rate, and dividends are recognized in profit or loss.

7.10.2 Debt instruments at fair value through other comprehensive income

The Group classifies debt instruments at fair value through other comprehensive income when both of the following conditions are met:

- The financial asset is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets;
- The contractual terms of the financial asset give rise to, on specific dates, cash flows that are solely payments of principal and interests on the principal amount outstanding.

Debt instruments classified as at fair value through other comprehensive income are subsequently measured at fair value with gains and losses arising due to changes in fair value being recognized in Other Comprehensive Income, at which point the accumulated value of potential gains and losses recorded in reserves is transferred to income statement under the caption of gains or losses with financial assets and liabilities accounted for at fair value through profit or loss. Interest income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortized cost as explained in Note 7.2.

The expected credit loss calculation for debt instruments at fair value through other comprehensive income is explained in Note 7.16. Where the Group holds more than one investment in the same security, they are deemed to be disposed of on a first–in first–out basis.

7.10.3. Equity instruments at fair value through other comprehensive income

Upon initial recognition, the Group occasionally elects to classify irrevocably some of its equity investments as equity instruments at fair value through other comprehensive income when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognized in profit or loss as other operating income when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in other comprehensive income.

Equity instruments measured at fair value through other comprehensive income are not subject to an impairment assessment.

7.10.4. Financial assets measured at fair value through profit or loss

Financial assets measured at fair value through profit or loss present the following characteristics:

- contractual cash flows are not SPPI (mandatorily measured at fair value through profit or loss); and/or
- it is held within a business model which objective is neither to obtain only contractual cash flows or to obtain contractual cash flows and sale; or
- it is designated at fair value through profit or loss as a result of applying the fair value option.

These assets are measured at fair value and the respective revaluation gains or losses are recognized in the income statement, except for gains and losses arising from changes in the Group's own credit risk, the Debt Valuation Adjustment (DVA), which are recognized in other comprehensive income. novobanco Group does not records any gain arising from own credit risk.

7.10.5. Assets and liabilities held for trading

The Group classifies financial assets or financial liabilities as held for trading when they have been purchased or issued primarily for short-term profit-making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking.

Held-for-trading assets and liabilities are recorded and measured in the statement of financial position at fair value. Changes in fair value are recognized in net trading income. Interest and dividend income or expense is recorded in net trading income according to the terms of the contract, or when the right to payment has been established.

Included in this classification are debt securities, equities, short positions and customer loans that have been acquired principally for the purpose of selling or repurchasing in the near term.

7.10.6. Derivative financial instruments and hedge accounting

Classification

The Group classifies its derivative portfolio into (i) fair value hedge and (ii) trading derivatives, which include, in addition to the trading book, other derivatives contracted for the purpose of hedging certain assets and liabilities designated at fair value through profit or loss but not classified as hedging (fair value option).

Recognition and measurement

Derivative financial instruments are initially recognized at their fair value on the date the derivative contract is entered into (trade date). Subsequent to initial recognition, the fair value of derivative financial instruments is remeasured on a regular basis and the resulting gains or losses on remeasurement are recognized directly in the income statement, except for derivatives designated as hedging instruments. The recognition of the resulting gains or losses arising on the derivatives designated as hedging instruments depends on the nature of the risk being hedged and the hedge model used.

Derivatives traded on organised markets, namely futures and some options contracts, are recorded as trading derivatives and their fair value changes are recorded against the income statement. The margin accounts are included under other assets and other liabilities (see Notes 31 and 35) and comprise the minimum collateral mandatory for open positions.

The fair value of the remaining derivative financial instruments corresponds to their market value, if available, or is determined using valuation techniques, including discounted cash flow models and options pricing models, as appropriate.

Hedge accounting

Classification criteria

Derivative financial instruments used for hedging purposes may be classified in the accounts as hedging instruments provided the following criteria are cumulatively met:

i. Hedging instruments and hedged items are eligible for the hedge relationship;

ii. At the inception of the hedge, the hedge relationship is identified and documented, including identification of the hedged item and hedging instrument and evaluation of the effectiveness of the hedge;

iii. There is an economic relationship between the hedged item and the hedging instrument;

iv. The effect of credit risk does not dominate the changes in value that result from this economic relationship;

v. The effectiveness of the hedge can be reliably measured, both at the inception of the hedge and on an ongoing basis.

For the cases in which the Group uses macro hedging, accounting is performed in accordance with IAS 39 (using the policy choice permitted under IFRS 9), with the Group carrying out prospective tests on the hedge relationship start date, when applicable, and retrospective tests in order to confirm, on each balance sheet date, the effectiveness of hedging relationships, demonstrating that changes in the fair value of the hedging instrument are covered by changes in the fair value of the hedged item in the portion attributed to the hedged risk. Any ineffectiveness found is recognized in the income statement when it occurs in gains or losses of hedge accounting.

The use of derivatives is framed in the Group's risk management strategy and objectives.

Fair Value Hedge

In a fair value hedging operation, the carrying value of the hedged asset or liability, determined in accordance with the respective accounting policy, is adjusted to reflect the changes in its fair value attributable to the risk being hedged. Changes in the fair value of the derivatives that are designated as hedging instruments are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the risk hedged. In cases where the hedging instrument covers an equity instrument designated at fair value through other comprehensive income, changes in fair value are also recognized in other comprehensive income.

If the hedge no longer meets the effectiveness requirement, but the objective of risk management stays the same, the Group may adjust the hedging operation in order to meet the eligibility criteria (rebalancing).

If the hedge no longer meets the criteria for hedge accounting (if the hedging instrument expires, is sold, terminated or exercised, without having been replaced in accordance with the entity's documented risk management objective), the derivative financial instrument is transferred to the trading portfolio and hedge accounting is discontinued prospectively. The cumulative adjustment to the carrying book value of a hedged asset or liability corresponding to a fixed income instrument, is amortised via the income statement over the period to its maturity, using the effective interest rate method.

Cash Flow Hedge

When a derivative financial instrument is designated as a hedge against the variability of highly probable future cash flows, the effective portion of the changes in the fair value of the hedging derivative is recognized in reserves, being recycled to the income statement in the periods in which the hedged item affects the income statement. The ineffective portion is recognized in the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss recognized in reserves at that time is recognized in the income statement when the hedged transaction also affects the income statement. When a hedged transaction is no longer expected to occur, the cumulative gain or loss reported in equity is recognized immediately in the income statement and the hedging instrument is reclassified to the trading portfolio.

Embedded derivatives
If a hybrid contract includes a host contract that is a financial asset under IFRS 9, the Group classifies the entire contract in accordance with the policy outlined in Note 7.9.

If a hybrid contract includes a host contract that is not an asset under IFRS 9, an embedded derivative shall be separated from the host contract and accounted for as a derivative under this Standard if, and only if:

a. The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;

b. a separate financial instrument with the same terms as the embedded derivative satisfies the definition of a derivative; and

c. The hybrid contract is not measured at fair value and changes in fair value are recognized in profit or loss (a derivative that is embedded in a financial liability at fair value through profit or loss is not separated).

These embedded derivatives are measured at fair value with the changes in fair value being recognized in the income statement.

7.10.7. Financial liabilities

An instrument is classified as a financial liability when it contains a contractual obligation to transfer cash or another financial asset, regardless of its legal form. Financial liabilities are derecognized when the underlying obligation is liquidated, expires or is cancelled.

Non-derivatives financial liabilities include deposits from banks and customers, loans, debt securities, subordinated debt and short sales.

These financial liabilities are recognized (i) initially, at fair value less transaction costs and (ii) subsequently, at amortised cost, using the effective interest rate method, except for short sales and financial liabilities designated at fair value through profit or loss, which are measured at fair value.

The Group designates, at inception, certain financial liabilities at fair value through profit or loss when:

- It eliminates or significantly reduces, a measurement or recognition inconsistency (accounting mismatch) that would otherwise occur;
- The financial liability it's part of a portfolio of financial assets or financial liabilities or both, managed and evaluated on a fair value basis, according with the Group's risk management or investment strategy; or
- These financial liabilities contain embedded derivatives and IFRS 9 allows designate the entire hybrid contract at fair value through profit and loss.

Reclassifications between categories of liabilities are not allowed.

The structured products issued by the Group – except for the structured products for which the embedded derivatives were separated, recorded separately, and revalued at fair value - are classified under the fair value through profit or loss category because they always meet one of the abovementioned conditions.

The fair value of listed financial liabilities is their current market bid prices. In the absence of a quoted price, the Group establishes the fair value by using valuation techniques based on market information, including the Group issuer's own credit risk.

Gains or losses arising from the revaluation of liabilities at fair value are recorded in the income statement. However, the change in fair value attributable to changes in credit risk is recognized in other comprehensive income. At the time of derecognition of the liability, the amount recorded in other comprehensive income attributable to changes in credit risk is not transferred to the income statement.

The Group accounts material changes in the terms of an existing liability or part of it as an extinction of the original financial liability and recognises of a new liability. The terms are assumed to be substantially different if the present value of the cash flows under the new terms, including any fees paid net of commissions received, and discounted using the original effective interest rate is at least 10% different from the discounted present value of the remaining cash flows from the original financial liability. The difference between the carrying amount of the original liability and the value of the new liability is recognized in the income statement.

If the Group repurchases debt securities issued, these are derecognized from the balance sheet and the difference between the carrying book value of the liability and its acquisition cost is recognized in the income statement.

7.10.8. Financial and performance guarantees

Financial guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss due to non-compliance with the contractual terms of a debt instrument, namely the payment of principal and/or interest.

Financial guarantees are initially recognized in the financial statements at fair value. Financial guarantees are subsequently measured at the higher of (i) the fair value recognized on initial recognition and (ii) the amount of any financial obligation arising as a result of guarantee contracts, measured at the balance sheet date. Any change in the amount of the liability relating to guarantees is taken to the income statement.

Financial guarantee contracts issued by the Group normally have a stated maturity date and a periodic fee, usually paid in advance, which varies in function of the counterpart risk, the amount and the time period of the contract. Consequently, the fair value of the financial guarantee contracts issued by the Group, at the inception date, is approximately equal to the initial fee received, considering that the conditions agreed to are market conditions. Hence, the amount recognized at the contract date is equal to the amount of the commission initially received, which is recognized in the income statement over the period to which it relates. Subsequent periodic fees are recognized in the income statement in the period to which they relate.

Performance guarantees

Performance guarantees are contracts that result in the compensation of a party if the other does not comply with its contractual obligation. Performance guarantees are initially recognized at their fair value, which is normally evidenced by the amount of the commissions received during the contract period. When there is a breach of contract, the Group has the right to reverse the guarantee, recognizing the amounts in Loans and advances to customers after transferring the compensation for the losses to the collateral taker.

7.11. Reclassifications of financial assets and financial liabilities

If the Group changes a business model, the financial assets included in that model are reclassified and the classification and measurement requirements for the new category are applied prospectively as from that date.

7.12. Modification of financial assets and financial liabilities

When the contractual cash flows of a financial asset are renegotiated or otherwise modified as a result of commercial restructuring activity rather than due to credit risk and impairment considerations, the Group performs an assessment to determine whether the modifications result in the derecognition of that financial asset. For financial assets, this assessment is based on qualitative factors. When assessing whether or not to derecognise a loan to a customer, amongst others, the Group considers the following factors:

- Change in loan currency;
- Introduction of an equity feature;
- Change in counterparty;
- Whether the modification is such that the instrument would no longer meet the SPPI criterion.

If the modification does not result in cash flows that are substantially different, as set out below, then it does not result in derecognition. Based on the change in cash flows discounted at the original effective interest rate, the Group records a modification gain or loss, to the extent that an impairment loss has not already been recorded. The Group's accounting policy in respect of forborne loans is set out in note 7.13.

When the modification of the terms of an existing financial liability is not judged to be substantial and, consequently, does not result in derecognition, the amortised cost of the financial liability is recalculated by computing the present value of estimated future contractual cash flows that are discounted at the financial liability's original EIR. Any resulting difference is recognized immediately as profit or loss. For financial liabilities, the Group considers a modification to be substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial liability of.

7.13. Derecognition

Financial assets are derecognized from the balance sheet when (i) the Group's contractual rights relating to the respective cash flows have expired, (ii) the Group has substantially transferred all the risks and benefits associated with its ownership, or (iii) despite the Group having withholding part, but not substantially all of the risks and benefits associated with its ownership, control over the assets has been transferred. When an operation measured at fair value through other comprehensive income is derecognized, the accumulated gain or loss previously recognized in other comprehensive income is reclassified to results. In the specific case of equity instruments, the accumulated gain or loss previously recognized in other equity is not reclassified to profit or loss, being transferred between equity items.

In the specific case of loans to customers, at the time of sale, the difference between the sale value and the book value must be 100% provisioned, and at the time of the sale, the credit sold will be derecognized against the funds / assets received. and consequent use of impairment on the balance sheet.

7.14. Forborne modified loans

The Group sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Group considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Group would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Global Risk Department. Forbearance may involve extending the payment arrangements and/or the agreement of new loan conditions. If modifications are substantial, the loan is derecognied, as explained in Note 7.12. Once the terms have been renegotiated without this resulting in the derecognition of the loan, any impairment is measured using the original effective interest rate as calculated before the modification of terms. The Group also reassesses whether there has been a significant increase in credit risk, as set out in Note 44 and whether the assets should be classified as Stage 3.

Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset.

Once an asset has been classified as forborne, it will remain forborne for a minimum 24-month probation period. In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- TAll of its facilities have to be considered performing;
- The probation period of two years has passed from the date the forborne contract was considered performing;
- Regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period;

- The customer does not have any contracts that are more than 30 days past due.

7.15. Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The legally enforceable right may not be contingent on future events and must be enforceable in the course of the normal activity of novobanco Group, as well as in the event of default, bankruptcy or insolvency of the Group or the counterparty.

7.16. Impairment of Financial Assets

Impairment principles

The Group records impairment allowance for expected credit losses ("ECLs") for the following debt instruments:

- Loans and advances to customers;
- Financial and performance guarantees;
- Import documentary credits;
- Confirmed export documentary credits;
- Undrawn loan commitments;
- Money market exposures;
- Securities portfolio.

Equity instruments are not subject to impairment under IFRS 9.

Debt instruments at amortised cost or at fair value through other comprehensive income are in the scope of the impairment calculation.

Impairment losses identified are recognized in the income statement and are subsequently reversed through the income statement if, in a subsequent period, the amount of impairment losses decreases.

Impairment is based on the credit losses expected to arise over the life of the asset (LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit losses.

The 12mECL is the portion of LTECL that represent the ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECL and 12mECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Group groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

- Stage 1: When loans are first recognised, the Bank recognises an allowance based on 12mECL. Stage 1 loans also include facilities where the credit risk has improved, and the loan has been reclassified from Stage 2.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved, and the loan has been reclassified from Stage 3.
- Stage 3: Loans considered credit-impaired (as default definition described below). The Group records an allowance for the LTECL.
- POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit adjusted EIR. The ECL allowance is only recognised or released to the extent that there is a subsequent change in the expected credit losses.

The calculation of ECL

The Group calculates ECL based on four probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- **PD Probability of Default-** is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- **EAD Exposure at Default** - is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- **LGD The Loss Given Default -** is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral or credit enhancements that are integral to the loan and not required to be recognised separately.

Scenarios

As required by IFRS 9, the impairment assessment of the Group reflects different expectations of macroeconomic developments, i.e., it incorporates multiple scenarios. In order to incorporate the effects of future macroeconomic behaviour on loss estimates, forward looking macroeconomic estimates are included in some of the risk parameters used to calculate impairment. In fact, different possible scenarios giving rise to the same number of impairment results are considered.

In this context, the process of defining macroeconomic scenarios considers the following principles:

- Representative scenarios that capture the existing non-linearities (e.g. a base scenario, an optimistic and a pessimistic scenario);
- The base scenario should be consistent with the inputs used in other exercises in the Group (e.g., Planning). This is ensured since the option used for the purpose of calculating impairment was precisely the same methodology that the Group uses in internal and / or regulatory planning exercises;
- Alternative scenarios to the base scenario should not originate extreme scenarios;
- The correlation between the projected variables should be realistic with the economic reality (e.g. if GDP is increasing it is expected that unemployment is decreasing).

The exercise of build the base and alternative macroeconomic scenarios for the Portuguese economy is based on a combination of econometric forecasts, information on forecasts from other external institutions and application of subjective expert judgment.

In the first component, GDP growth is estimated through estimates for the growth of expenditure components, obtaining GDP through the formula GDP = Consumption + Investment + Exports - Imports. The econometric specifications chosen are those that, after testing different alternatives, generate the best result.

The econometric estimates thus obtained are then weighted with forecasts from external institutions, according to the principle that the combination of different projections tends to be more accurate than just a forecast (the risk of errors and bias associated with specific methods and variables is minimized).

The forecasts for prices (consume and real estate) and unemployment follow a similar methodology: own forecasts based on an estimated model, weighted with forecasts from external institutions, if available. In a base scenario, the projections for interest rates start from market expectations (provided by Bloomberg), with possible adjustments in accordance with the principles defined above, if considered appropriate (weighting by expert judgment and forecasts from external institutions). The alternative scenarios are based on the historical observation of deviations from the trend in GDP behavior (cost and contraction cycles), the reference of EBA recommendations for extreme adverse scenarios, the stylized facts of economic cycles, with respect to the components of expenditure, prices, unemployment, etc. and estimates.

Thus, when revising / updating the scenarios, the respective probabilities of execution are also reviewed. Once the scenarios are updated, the values of the risk parameters are updated for later consideration in the scope of the Impairment calculation. The final impairment calculated will thus result from the sum of the impairment value of each scenario, weighted by the respective probability of execution.

Currently, 3 scenarios are considered for the calculation of impairment on a collective basis: base case, downside case and an upside case.

The mechanics of the ECL method are summarised below:

- Stage 1: The 12mECL is calculated as the portion of LTECL that represent the ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the four scenarios, as explained above.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECL. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.
- Stage 3: For loans considered credit-impaired, the Bank recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.
- POCI assets are financial assets that are credit impaired on initial recognition. The Bank only recognises the cumulative changes in lifetime ECL since initial recognition, based on a probability-weighting of the four scenarios, discounted by the credit-adjusted EIR.
- When estimating LTECL for undrawn loan commitments, the Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting of the four scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan.
- For credit cards and revolving facilities that include both a loan and an undrawn commitment, ECL is calculated and presented together with the loan. For loan commitments and letters of credit, the ECL is recognised within Provisions.

The ECL for debt instruments measured at fair value through other comprehensive income do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets.

For POCI financial assets, the Group only recognises the cumulative changes in LTECL since initial recognition in the loss allowance.

The ongoing assessment of whether a significant increase in credit risk has occurred for revolving facilities is similar to other lending products. This is based on shifts in the customer's internal credit grade, but greater emphasis is also given to qualitative factors such as changes in usage. The interest rate used to discount the ECL for credit cards is based on the average effective interest rate that is expected to be charged over the expected period of exposure to the facilities. This estimation takes into account that many facilities are repaid in full each month and are consequently not charged interest. The calculation of ECL, including the estimation of the expected period of exposure and discount rate is made, on an individual basis for corporate and on a collective basis for retail products. The collective assessments are made separately for portfolios of facilities with similar credit risk characteristics.

Individual impairment analysis process

The Individual Credit Analysis comprises a staging analysis and an individual impairment quantification analysis. The staging analysis is performed for debtors previously classified as stage 1 and stage 2, with the purpose of evaluating the adequacy of the assigned stage with additional information obtained on an individual basis. The individual impairment quantification analysis aims to determine the most appropriate impairment rate for each credit customer, regardless of the amount resulting from the Collective Impairment Model. Clients that have been subject to Individual Analysis, but for which an objective impairment loss was not considered, are again included in the Collective Impairment Model. The Individual Analysis of the selected clients is carried out based on the information provided by the Commercial Structures regarding the client / Group's framework, historical and forecast cash flows (when available) and existing collateral.

7.17. Collateral and financial guarantees valuation

To mitigate its credit risks on financial assets, the Group seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. Collateral, unless repossessed, is not recorded on the Bank's statement of financial position. Collateral is generally assessed, at a minimum, at inception and re-assessed on a quarterly basis. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily. To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers or based on housing price indices.

7.18. Foreclosed properties and non-current assets held for sale

In the scope of its loan granting activity, the Group incurs in the risk of the borrower failing to repay all the amounts due. In case of loans and advances with mortgage collateral, the Group executes these and receives real estate properties resulting from foreclosure. Due to the provisions of the General Law on Credit Institutions and Financial Companies ("Regime Geral das Instituições de Crédito e Sociedades Financeiras" (RGICSF)), banks are prevented, unless authorised by Bank of Portugal, from acquiring real estate property that is not essential to their installation and daily operations and the pursuit of their object (No. 1 of article 112 of RGICSF), being able to acquire, however, real estate property in exchange for loans granted by same. This real estate property must be sold within 2 years, period which may, based on reasonable grounds, be extended by Bank of Portugal, on the conditions to be determined by this Authority (article 114 of RGICSF).

Although the Group's objective is to immediately dispose of all real estate property acquired as payment in kind for loans, during financial year 2016 the Group changed the classification of this real estate properties from Non-current assets held for sale to Other assets (and to Investment properties, in the case of assets owned by investment funds or real estate properties leased out), due to the permanence of same in the portfolio exceeding 12 months. However, the accounting method has not changed, these being initially recognized at the lower of their fair value less costs to sell and the carrying amount of the subjacent loans. Subsequently, these real estate properties are measured at the lower of its initial carrying amount and the corresponding fair value less costs to sell and it is not depreciated. For real estate properties recorded in the balance sheet of novobanco and of the remaining credit institutions integrating the consolidation perimeter of the Group, the amount recoverable from their immediate sale is considered to be their respective fair value. For real estate properties held by investment funds, and in accordance with Law No. 16/2015, of February 24, fair value is determined as the average between two valuations, obtained from independent entities, determined at the best price that could be obtained if it were put up for sale under normal market conditions at the time of valuation, which is reviewed at least annually or, in the case of open investment funds, with the frequency of redemption, and whenever acquisitions or disposals occur or when significant changes in the value of the real estate property occur. The market value of properties for which a promissory purchase and sale agreement was entered into corresponds to the value of that agreement.

The valuation of these real estate properties is performed in accordance with one of the following methodologies, applied in accordance with the specific situation of the asset:

- (i) Market Method

  The Market Comparison Criteria takes as a reference transaction values of similar and comparable real estate properties to the real estate property under valuation, obtained through market prospection carried out in the zone.

- (iI) Income Method

  Under this method, the real estate property is valued based on the capitalization of its net income, discounted to the present using the discounted cash-flow method.

- (iii) Cost Method

  This method aims to reflect the current amount that would be required to substitute the asset in its present condition, separating the value of the real estate property into its fundamental components: Urban Ground Value and Urbanity Value; Construction Value; and Indirect Costs Value.

Valuations carried out are performed by independent entities specialized in these services. The valuation reports are analysed internally, namely comparing the sales values with the revalued amounts of the assets so as to assess the parameters and process adequacy with the market evolution.

Additionally, since these are assets whose fair value level in the hierarchy of IFRS 13 mostly corresponds to level 3, given the subjectivity of some assumptions used in the valuations and the fact that there are external indications with alternative values, the Group proceeds to analysis on the assumptions used, which may imply additional adjustments to their fair value, supported by additional internal or external valuations.

For assets of greater relevance, the challenge of the appraisals that serve as a basis for the valuation of the real estate assets is carried out by a specialized area of the Group that is independent of this valuation process, in accordance with an annual work plan previously approved by the Executive Board of Directors.

Non-current assets or disposal groups (groups of assets to be disposed of together and the related liabilities that include at least one non-current asset) are classified as held for sale when their carrying values will be recovered mainly through a sale transaction (including those acquired exclusively with a view to their subsequent disposal), the assets or disposal groups are available for immediate sale and the sale is highly probable (within the period of one year).

Immediately before the initial classification as held for sale, the measurement of the non-current assets (or of all the assets and liabilities in a disposal group) is brought up to date in accordance with the applicable IFRS. Subsequently, these assets or disposal groups are remeasured at the lower of their carrying value and fair value less costs to sell. Where the carrying value of non-current assets corresponds to fair value less costs to sell, the fair value level of the IFRS 13 hierarchy corresponds mostly to Level 3.

Assets / liabilities of subsidiaries acquired for resale purposes reflect, essentially, assets and liabilities of subsidiaries acquired by the Group in the scope of loan restructuring operations, for which the Group's objective is their subsequent disposal within one year. Since these acquisitions arise from loan restructuring operations, they are recognized at their fair value, and any differences between their fair values and those of the extinguished loans following the acquisitions, are recognized as impairment losses on loans and advances. On the acquisition of an entity meeting the subsidiary criteria and for which the Group's objective is its resale, it is consolidated in accordance with the applicable procedures adopted by the Group and its assets and liabilities are measured at fair value at the acquisition date. However, in these specific cases, the assets are classified as non-current assets held for sale and the liabilities are classified as non-current liabilities held for sale. Consequently, and at the first consolidation date, the net value of the assets and liabilities of the subsidiary reflects their fair value determined at the acquisition date (which results from the loan restructuring operation).

These subsidiaries are consolidated until their effective sale. At each balance sheet date, the net carrying book value of their assets and liabilities is compared with their fair value, less costs to sell, and impairment losses are recognized when necessary. Assets and liabilities relating to discontinued operations are recorded in accordance with the valuation policies applicable to each category of assets and liabilities, as set down in IFRS 5, according to the IAS/IFRS applicable to the respective assets and liabilities.

For purposes of determining the fair value of subsidiaries held for resale, the Group adopts the following methodologies:

no caso de subsidiárias cujos ativos são formados predominantemente por bens imobiliários, o seu justo valor é determinado por referência ao valor desses ativos com base em avaliações efetuadas por peritos independentes;

- for subsidiaries which assets comprise fundamentally real estate, their fair value is determined with reference to the value of those assets, which is based on valuations performed by independent specialised entities;
- for the remaining entities, their fair value is determined based on the discounted cash flow methodology, using assumptions consistent with the business risks of each of the subsidiaries under valuation. If these subsidiaries cease to comply with the conditions necessary to be recorded as non-current assets held for sale in accordance with IFRS 5, their assets and liabilities are fully consolidated in the respective asset and liability captions, in accordance with that provided for in Note 29.

7.19. Investment properties

The Group classifies as investment properties the real estate assets held to earn rentals or for capital appreciation or both. Investment properties are initially recognized at acquisition cost, including directly attributable transaction costs, and subsequently at their fair value. Changes in fair value determined at each balance sheet date are recognized in the income statement, under the caption Other operating income and expenses, based on periodic valuations performed by independent entities specialised in this type of service. Investment properties are not depreciated.

Since these are assets whose fair value level in the hierarchy of IFRS 13 mostly corresponds to level 3, given the subjectivity of some assumptions used in the valuations and the fact that there are external indications with alternative values, the Group proceeds to analysis on the assumptions used, which may imply additional adjustments to their fair value, supported by additional internal or external valuations.

Reclassifications to and from the caption Investment properties may occur whenever a change in respect of the use of a real estate property is verified. On the reclassification of investment properties to real estate properties held for own use, the estimated cost, for accounting purposes, is the fair value, at the date of the change in usage. If a real estate property held for own use is reclassified to investment properties, the Group records that asset in accordance with the policy applicable to real estate properties held for own use, up to the date of its reclassification to investment properties and at fair value subsequently, with the difference arising in its measurement at the date of the reclassification being recognized in revaluation reserves. If a real estate property is transferred from other assets to investment properties, any difference between the fair value of the asset at that date and the previous carrying book value is recognized in the income statement.

Subsequent expenditure is capitalised only when it is probable that the Group will obtain future economic benefits in excess of those originally estimated based on the performance of the asset.

Gains and losses on the disposal of investment properties resulting from the difference between the realised value and the carrying book value are recognized in the income statement for the year under the caption Other operating income and expenses. Gains and losses on the disposal of investment properties resulting from the difference between the realised value and the carrying book value are recognized in the income statement for the year under the caption Other operating income or Other operating expenses.

Investment properties recorded relate solely to non-banking activities (Investment Funds and Real Estate Companies).

7.20. Write-offs

Write-off is defined as the derecognition of a financial asset from the Group's balance sheet, which should only occur when cumulatively:

i. The total amount of the credit has been demanded, that is, the credit must be fully recognized (totally or partially) as overdue credit. Exemptions from this requirement are (i) debt restructuring/pardon carried out within the scope of extra-judicial, PER and Insolvency agreements, in which part of the credit may remain performing and the remainder of the debt will be written off by judicial/extra-judicial decision and (ii) situations in which that despite the contract not having expired in its entirety, the Group understands that it is facing a scenario of total or partial loss;

ii. All the recovery efforts, considered appropriate, have been developed (and the relevant evidence gathered);

iii. The credit recovery expectations are very low, being necessary that the amount to be written off (whether total or partial write-off of the debt) to be fully covered by impairment and under management by the central credit recovery application. It is necessary to ensure that the amount to be written off from the asset is 100% impaired (constituted at least in the month prior to the write-off); and

iv. A final agreement has been obtained as part of a restructuring process and the remaining debt can no longer be recovered.

Subsequent payments received after the write-off must be recognized as subsequent write-off recoveries at other operating income.

7.21. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with a maturity of less than three month from the date of acquisition / contracting and whose risk of change in value is immaterial, including cash, deposits with Central Banks and deposits with other credit institutions. Cash and cash equivalents exclude restricted balances with Central Banks.

7.22. Assets sold with repurchase agreements, securities loaned and short sales

Securities sold subject to repurchase agreements (repos) at a fixed price or at a price that corresponds to the sales price plus a lender's return are not derecognized from the balance sheet. The corresponding liability is included under amounts due to banks or to customers, as appropriate. The difference between the sale and repurchase price is treated as interest and deferred over the life of the agreement, using the effective interest rate method.

Securities purchased under agreements to resell (reverse repos) at a fixed price or at a price that corresponds to the purchase price plus a lender's return are not recognized in the balance sheet, the purchase price paid being recorded as loans and advances to banks or customers, as appropriate. The difference between the purchase and resale price is treated as interest and deferred over the life of the agreement, using the effective interest rate method.

Securities ceded under loan agreements are not derecognized in the balance sheet, being classified and measured in accordance with the accounting policy described in Note 7.10. Securities received under borrowing agreements are not recognized in the balance sheet.

Short sales correspond to securities sold that are not included in the Group's assets. They are recorded as financial liabilities held for trade, at the fair value of the assets to be returned in the scope of the repurchase agreement. Gains and losses resulting from the change in their respective fair value are recognized directly in the income statement in Gains or Losses from financial assets and liabilities held for trading.

7.23. Property, plant and equipment

The Group's property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. The cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs with property, plant and equipment are only recognized when it is probable that future economic benefits associated with them will flow to the Group. All repair and maintenance costs are charged to the income statement during the period in which they are incurred, on the accrual basis.

Land is not depreciated. The depreciation of property, plant and equipment is calculated using the straight-line method, at the following depreciation rates that reflect their estimated useful lives:

	Number of years
Self-Service buildings	35 to 50
Leasehold improvements	10
IT equipment	4 to 8
Furniture and fixtures	4 to 10
Interior installations	5 to 10
Security equipment	4 to 10
Machines and tools	4 to 10
Transport equipment	4
Other equipment	5

The useful lives and residual values of property, plant and equipment are reviewed at each reporting date.

When there is an indication that an asset may be impaired, IAS 36 requires its recoverable amount to be estimated and an impairment loss recognized when the book value of the asset exceeds its recoverable amount. Impairment losses are recognized in the income statement, being reversed in subsequent periods, when the reasons that led to their initial recognition cease to exist. For this purpose, the new depreciated amount shall not exceed that which would be recorded had the impairment losses not been imputed to the asset but considering the normal depreciation the asset would have been subject to.

The recoverable amount is determined as the lower of its net selling price and its value in use, which is based on the net present value of the estimated future cash flows arising from the continued use and ultimate disposal of the asset at the end of its useful life.

On the date of the derecognition of a tangible fixed asset, the gain or loss determined as the difference between the net selling price and the net carrying book value is recognized under the caption Other operating income or Other operating expenses.

7.24. Leases

Lease Definition

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

As lessee

As a lessee, the Group leases various assets, including real estate, vehicles and IT equipment. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

As previously mentioned, the Group has opted not to recognize assets under right of use and liabilities for short-term leases, with a lease term of 12 months or less, and low value asset leases (e.g. IT equipment) with a new value of less than Euro 5 thousand. The Group recognizes the lease payments associated with these leases as expenses on a straight-line basis over the lease term in income statement as “Other administrative expenses – rents and rentals”.

The Group presents assets under right of use that do not fit the definition of investment property as “tangible fixed assets”, in the same line as the underlying assets of the same nature that they own. Right-of-use assets that fall under the definition of investment property are presented as investment property. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred and less any lease incentives received.

The Group presents the lease liabilities under “Other liabilities” in the statement of financial position. The lease liability corresponds to the present value of the future cash flows to be paid during the lease contract. The lease rents include fixed amounts, variable amounts that depend on an interest rate, amounts to be payable relating to guarantees on the residual value of the asset. Any options are also included if they are reasonably expected to be exercised.

Variable amounts that do not depend on interest rate are recognized as cost in the period to which they relate. During the lease period, the lease liability increases by the interest accrual and decreases by the lease rents payment. The value of the lease liability changes if the terms of the lease (such as the term or the value of the index) change or if the valuation of the exercise of the option to acquire the asset changes.

As Lessor

Financial leases

Transactions in which the risks and benefits inherent in the ownership of an asset are substantially transferred to the lessee are classified as finance leases. Financial leasing contracts are recorded in the balance sheet as credits granted for an amount equivalent to the net investment made in the leased assets, together with any estimated non-guaranteed residual value. Interest included in rents charged to customers is recorded as income while capital amortizations, also included in rents, are deducted from the amount of credit granted to customers. The recognition of interest reflects a constant periodic rate of return on the lessor’s remaining net investment.

Operating leases

All lease transactions that do not fall under the definition of finance lease are classified as operating leases.

Receipts relating to these contracts are recognized on a straight-line basis over the lease term and recorded in “Other operating income”.

7.25. Intangible assets

The costs incurred with the acquisition, production and development of software are capitalised, as are additional costs incurred by the Group to implement said software. These costs are amortised on a straight-line basis over their expected useful lives, which usually range between 3 and 6 years.

Costs that are directly associated with the development of specific software applications, that will probably generate economic benefits beyond one financial year, are recognized and recorded as intangible assets.

All remaining costs associated with information technology services are recognized as an expense as incurred.

7.26. Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asse or cash generating unit fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or cash generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on most recent budgets and forecast calculations, which are prepared separately for each of the Group's cash generating units to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year (perpetuity).

Impairment losses of continuing operations are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognised in other comprehensive income up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or cash generating unit recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Intangible assets with indefinite useful lives are tested for impairment annually at the cash generating unit level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

7.27. Employee Benefits

Pensions

Pursuant to the signature of the Collective Labour Agreement ("Acordo Coletivo de Trabalho" (ACT)) for the banking sector and its subsequent amendments resulting from the 3 tripartite agreements described in Note 17, pension funds and other mechanisms were set up to cover liabilities assumed with pensions on retirement, disability, survival and health-care benefits.

The liabilities' coverage is assured, for most of the Group companies, by pension funds managed by GNB - Sociedade Gestora de Fundos de Pensões, SA, a subsidiary of the Group.

The pension plans of the Group are defined benefit plans, as they establish the criteria to determine the pension benefit to be received by employees during retirement, usually dependent on one or more factors such as age, years of service and salary level.

The retirement pension liabilities are calculated semi-annually, in 31 December and 30 June of each year, for each plan individually, using the Projected Unit Credit Method, being annually reviewed by qualified independent actuaries. The discount rate used in this calculation is determined with reference to market rates associated with high-quality corporate bonds, denominated in the currency in which the benefits will be paid out and with a maturity similar to the expiry date of the plan's liabilities.

The Group determines the net interest income / expense for the period incurred with the pension plan by multiplying the plan's net assets / liabilities (liabilities net of the fair value of the fund's assets) by the discount rate used to measure the retirement pension liabilities referred to above. On that basis, the net interest income / expense was determined based on the interest cost on the retirement pension liabilities net of the expected return on the funds' assets, both calculated using the discount rate applied in the determination of the retirement pension liabilities.

Re-measurement gains and losses, namely (i) actuarial gains and losses arising due to differences between actuarial assumptions used and real values verified (experience adjustments) and changes in actuarial assumptions and (ii) gains and losses arising due to the difference between the expected return on the fund's assets and the actual investment returns, are recognized in equity under the caption other comprehensive income.

The Group recognizes as a cost in the income statement a net total amount that includes (i) current service costs, (ii) net interest income / expense with the pension fund, (iii) the effect of early retirement, (iv) past service costs, and (v) the effect of settlements or curtailments occurring during the period. The net interest income / expense with the pension plan is recognized as interest income or interest expense, depending on its nature. Early retirement costs correspond to increases in liabilities due to employees retiring before turning 65 (normal retirement age foreseen in the ACTV) and which forms the basis of the actuarial calculation of pension fund liabilities. Whenever the possibility of the early retirement provided for in the pension fund regulation is invoked, the responsibilities of same must be incremented by the value of the actuarial calculation of the liabilities corresponding to the period between the early retirement and the employee turning 65.

The Group makes payments to the funds to assure their solvency, the minimum levels set by Bank of Portugal being: (i) the liability with pensioners must be totally funded at the end of each period, and (ii) the liability relating to past service costs for active employees must be funded at a minimum level of 95%.

The Group assesses the recoverability of any excess in a fund regarding he retirement pension liabilities, based on the expectation of reductions in future contributions.

Health-care benefits

The Group provides to its banking employees health-care benefits through a specific Social-Medical Assistance Service. This Social-Medical Assistance Service (SAMS) is an autonomous entity which is managed by the respective Union.

SAMS provides its beneficiaries services and/or contributions with medical assistance expenses, diagnostics, medication, hospitalization, and surgeries, in accordance with its funding availability and internal regulations.

Arising from the signature of the new Collective Labour Agreement (ACT) on 5 July 2016, published in Labour Bulletin (Boletim do Trabalho) No. 29, of 8 August 2016, the Group's contributions to SAMS, correspond to a monthly fixed amount (as per Annex VI of the new ACT) for each employee, 14 times a year, recorded on a monthly basis in personnel costs, while the component to be paid by the employee is discounted monthly in the processing of salary, against the caption Amounts payable (SAMS).

The calculation and recognition of the Group's liability with post-retirement health-care benefits is similar to the calculation and recognition of the pension liability described above. These benefits are covered by the Pension Fund, which presently covers all liabilities with pensions and health-care benefits (defined benefit plan).

Career bonus

The ACT provides for the payment by the Group of a career bonus, due at the time immediately prior to the employee's retirement if he retires at the Group's service, corresponding to 1.5 of his salary at the time of payment.

These long-term service bonuses were accounted for by the Group in accordance with IAS 19, as other long-term employee benefits. The Group's liability with these long-term service bonuses were periodically estimated by the Group using the Projected Unit Credit Method. The actuarial assumptions used were based on expectations as to future salary increases and mortality tables. The discount rate used in this calculation was determined using the methodology described for retirement pensions. In each period, the increase in the liability for long-term service bonuses, including actuarial gains and losses and past service costs, was charged to the income statement, in Personnel Expenses.

Employees' variable remuneration and other obligations

The Group recognises under costs the short-term benefits paid to employees who were at its services in the respective accounting period.

- **Profit-sharing and bonus plans**
  The Group recognizes the cost expected with profit-sharing pay-outs and bonuses when it has a present, legal or constructive, obligation to make such payments as a result of past events and can make a reliable estimate of the obligation.

- **Obligations with holidays, holiday subsidy and Christmas subsidy**
  In accordance with the legislation in force in Portugal, employees are annually entitled to one month of holidays and one month of holiday subsidy, this being a right acquired in the year prior to their payment. In addition, employees are annually entitled to one month of Christmas subsidy, which right is acquired throughout the year and settled during the month of December of each calendar year. Hence, these liabilities are recorded in the period in which the employees acquire the right to same, regardless of the date of their respective payment.

7.28. Provisions and Contingent liabilities

Provisions are recognized when: (i) the Group has a current legal or constructive obligation, (ii) it is probable that its settlement will be required in the future and (iii) a reliable estimate of the obligation can be made.

Provisions related to legal cases opposing the Group to third parties, are constituted according to internal risk assessments made by Management, with the support and advice of its internal or external legal advisors.

When the effect of the passage of time (discounting) is material, the provision corresponds to the net present value of the expected future payments, discounted at an appropriate rate considering the risk associated with the obligation. In these cases, the increase in the provision due to the passage of time is recognized in financial expenses.

Restructuring provisions are recognized when the Group has approved a formal, detailed restructuring plan and such restructuring has either commenced or has been publicly announced.

A provision for onerous contracts is recognized when the benefits expected to be derived by the Group from a contract are lower than the unavoidable costs of meeting its obligation under the contract. This provision is measured at the present value of the lower of the estimated cost of terminating the contract and the estimated net costs of continuing the contract.

If a future outflow of funds is not probable, this situation reflects a contingent liability. Contingent liabilities are always disclosed, except when the likelihood of their occurrence is remote.

7.29. Income taxes

novobanco and its subsidiaries are subject to the tax regime consigned in the Código do Imposto sobre o Rendimento das Pessoas Coletivas (IRC Code).

Corporate income tax comprises current tax and deferred tax.

Corporate income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized under equity. Corporate income tax recognized directly in equity relating to fair value remeasurement of financial assets at fair value through other comprehensive income and cash flow hedges is subsequently recognized in the income statement when the gains or losses giving rise to said income tax are also recognized in the income statement.

Current tax
Current tax is the tax expected to be paid on the taxable profit for the year, calculated using tax rules and tax rates enacted or substantively enacted in each jurisdiction and any adjustments to prior period taxes. The tax is recognized in each financial reporting period based on management estimates as regards the average effective tax rate foreseen for the entire fiscal year.

Current tax is calculated based on taxable income for the period, which differs from the accounting result due to adjustments resulting from expenses or income not relevant for tax purposes or which will only be considered in subsequent years.

Deferred tax
Deferred tax is calculated on timing differences arising between the carrying book values of assets and liabilities for financial reporting purposes and their respective tax base and is calculated using the tax rates enacted or substantively enacted at the balance sheet date in each jurisdiction and that are expected to apply when the timing differences are reversed.

Deferred tax liabilities are recognized for all taxable timing differences except for: i) goodwill non-deductible for tax purposes; ii) differences arising on the initial recognition of assets and liabilities that neither affect the accounting nor taxable profit; iii) that do not result from a business combination, and iv) differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future and the Group does not control the timing of the reversal of the timing differences. Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the deductible timing differences can be offset. Deferred tax liabilities are always accounted for, regardless of the performance of Group.

The taxable profit or tax loss determined by the Group can be adjusted by the Portuguese Tax Authorities within a period of four years, except in the case of any deduction or use of tax credit, in which the expiry period is the exercise of that right (5 or 12 years in the case of tax losses, depending on the year). The Executive Board of Directors considers that any corrections, resulting mainly from differences in the interpretation of tax legislation, will not have a materially relevant effect on the financial statements.

The Group, as established in IAS 12, paragraph 74, offsets deferred tax assets and liabilities whenever (i) it has the legally enforceable right to offset current tax assets and current tax liabilities; and (ii) they relate to corporate income taxes levied by the same Taxation Authority, on the same tax entity or different taxable entities that intent to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which the deferred tax liabilities or assets are expected to be settled or recovered.

The Bank complies with the guidelines of IFRIC 23 - Uncertainty on the Treatment of Income Tax with regard to the determination of taxable profit, tax bases, tax losses to be reported, tax credits to be used and tax rates in scenarios of uncertainty regarding the treatment of income tax, with no material impact on its financial statements resulting from its application.

7.30. Treasury shares

Own equity instruments of the Bank which are acquired by it or by any of its subsidiaries (treasury shares) are deducted from equity. Consideration paid or received on the purchase, sale, issue or cancellation of the Bank's own equity instruments is recognised directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of own equity instruments. As at 31 December 2021, the Bank or the Group does not hold own equity instruments.

7.31. Disintermediation

The Group provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity, unless recognition criteria are met, are not reported in the financial statements, as they are not assets of the Group.

7.32. Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and are no longer at the discretion of the Bank.

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

7.33. Equity Reserves

The reserves recorded in equity on the Group's statement of financial position include:

- Other Comprehensive Income:
  - Fair value reserves which comprises: (i) The cumulative net change in the fair value of debt instruments classified at fair value through other comprehensive income, less the allowance for expected credit loss, when applicable; (ii) The cumulative net change in fair value of equity instruments at fair value through other comprehensive income;
  - o Impairment reserves of debt instruments classified at fair value through other comprehensive income;

- o Reserves associated with sales of equity instruments classified as fair value through other comprehensive income, which include the proceeds from sales of these securities;
- o Actuarial deviation reserves that correspond to actuarial gains and losses, resulting from differences between the actuarial assumptions used and the values actually verified (experience gains and losses) and from changes in actuarial assumptions and the gains and losses arising from the difference between the income expected from the fund's assets and the values obtained;
- o Own credit revaluation reserve, which comprises the cumulative changes in the fair value of the financial liabilities designated at fair value through profit or loss attributable to changes in the Group's own credit risk
- o Cash flow hedge reserve, which comprises the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge
- o Foreign currency translation reserve, which is used to record exchange differences arising from the translation of the net investment in foreign operations, net of the effects of hedging
- o Other capital reserve, which includes the portion of compound financial liabilities that qualify for treatment as equity

- Retained earnings, which corresponds to earnings of the Group carried over from previous years;
- Other reserves (originary reserve, special reserve and other reserves).

7.34. Earnings per share

Basic earnings per share are calculated by dividing the net income attributable to the shareholders of the parent company by the weighted average number of ordinary shares outstanding during the period.

For the calculation of diluted earnings per share, the weighted average number of ordinary shares outstanding is adjusted to reflect the impact of all potential dilutive ordinary shares, such as those resulting from convertible debt and share options granted to employees. The dilution effect translates into a decrease in earnings per share, based on the assumption that the convertible instruments will be converted, or the options granted exercised.

7.35. The accounting standards and interpretations

The accounting standards and interpretations recently issued but not yet effective and that the Group has not yet applied in the preparation of its financial statements may be analysed as follows:

Standards, interpretations, amendments and revisions that become effective in future years:

The following standards, interpretations, amendments and revisions, with mandatory application in future financial years, have not been, until the date of approval of these financial statements, adopted ("endorsed") by the European Union:

Norm / Interpretation	Applicable in the European Union for fiscal years beginning on or after	Description
Amendments to IFRS 3 - References to the Framework for Financial Reporting	1-jan-2022	This amendment updates the references to the Framework in the text of IFRS 3, with no changes being made to the accounting requirements for business combinations. It also clarifies the accounting treatment to be adopted in respect of liabilities and contingent liabilities under IAS 37 and IFRIC 21, incurred separately versus those included in a business combination. The amendment is of prospective application.
Amendments to IAS 16 - Income Earned Before Start-Up	1-jan-2022	Clarifies the accounting treatment given to the consideration obtained with the sale of products that result from the production in test phase of tangible fixed assets, prohibiting their deduction from the acquisition cost of the assets. The entity recognizes the income obtained from the sale of such products and the costs of their production in results.
Amendments to IAS 37 - Onerous Contracts - costs of fulfilling a contract	1-jan-2022	This amendment specifies that in assessing whether or not a contract is onerous, only expenses directly related to the performance of the contract can be considered, such as incremental costs related to direct labor and materials and the allocation of other directly related expenses such as the allocation of depreciation expenses for tangible assets used to perform the contract. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly charged to the counterparty in accordance with the contract. This amendment should be applied to contracts that, at the beginning of the first annual reporting period to which the amendment is applied, still include unfulfilled contractual obligations, without restating the comparative.
Amendments to IFRS 1 - Subsidiary as a first-time adopter of IFRS (included in the annual improvements for the 2018-2020 cycle)	1-jan-2022	This improvement clarifies which fees an entity should include when assessing whether the terms of a financial liability are substantially different from the terms of the original financial liability. This improvement clarifies that, when performing derecognition tests on renegotiated liabilities, only fees paid or received between the debtor and the creditor should be included, including fees paid or received by the debtor or the creditor on behalf of the other. This improvement eliminates the requirement to exclude tax cash flows in the fair value measurement of biological assets, ensuring consistency with the principles of IFRS 13 - Fair Value.
Amendments to IFRS 9 - Derecognition of financial liabilities - Fees to be included in the '10 per cent' change test (included in the annual improvements for the 2018 2020 cycle)	1-jan-2022	This improvement clarifies which fees an entity should include when assessing whether the terms of a financial liability are substantially different from the terms of the original financial liability. This improvement clarifies that, when performing derecognition tests on renegotiated liabilities, only fees paid or received between the debtor and the creditor should be included, including fees paid or received by the debtor or the creditor on behalf of the other.
Amendments to IAS 41 - Taxation and fair value measurement (included in the annual improvements for the 2018-2020 cycle)	1-jan-2022	This improvement eliminates the requirement to exclude tax cash flows in the fair value measurement of biological assets, ensuring consistency with the principles of IFRS 13 - Fair Value.
IFRS 17 - Insurance Contracts	1-jan-2023	IFRS 17 applies to all insurance contracts (i.e. life, non-life, direct insurance and reinsurance), regardless of the type of entity that issues them, as well as some guarantees and some financial instruments with discretionary participation features. In general terms, IFRS 17 provides an accounting model for insurance contracts that is more useful and more consistent for issuers. In contrast to the requirements of IFRS 4, which are based on previously adopted local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.

These standards have not yet been endorsed by the European Union and, as such, have not been applied by the Bank for the year ended December 31, 2021. No significant impacts on the financial statements are expected as a result of their adoption.

Standards, interpretations, amendments and revisions not yet adopted by the European Union

Norm / Interpretation	Description
Amendments to IAS 1 – Presentation of financial statements - Classification of current and non-current liabilities	This amendment aims to clarify the classification of liabilities as current or non-current balances depending on the rights that an entity has to defer its payment, at the end of each reporting period. The classification of liabilities is not affected by the entity's expectations (the assessment should determine whether a right exists, but should not consider whether the entity will or will not exercise that right), or by events occurring after the reporting date, such as the breach of a "covenant". However, if the right to defer settlement for at least twelve months is subject to certain conditions being met after the reporting date, those criteria do not affect the right to defer settlement for the purpose of classifying a liability as current or noncurrent. This amendment also includes a new definition of "settlement" of a liability and is retrospective.
Amendments to IAS 8 – Definition of accounting estimates	The amendment clarifies the distinction between change in accounting estimate, change in accounting policy and correction of errors. In addition, it clarifies how an entity uses measurement techniques and inputs to develop accounting estimates.
Amendments to IAS 1 – Disclosure of accounting policies	These amendments are intended to assist the entity in disclosing 'material' accounting policies, previously referred to as 'significant' policies. However, due to the absence of this concept in IFRS, it was decided to replace it by the concept "materiality", a concept already known to users of financial statements. In assessing the materiality of accounting policies, the entity has to consider not only the size of the transactions but also other events or conditions and the nature of these.
Amendments to IAS 12 – Deferred tax related to assets and liabilities arising from a single transaction	The amendments clarify that payments that settle a liability are tax deductible, however it is a matter of professional judgment whether such deductions are attributable to the liability that is recognized in the financial statements or the related asset. This is important in determining whether there are temporary differences in the initial recognition of the asset or liability. According to these amendments, the initial recognition exception is not applicable to transactions that have given rise to equal taxable and deductible temporary differences. It only applies if the recognition of a leasing asset and a leasing liability gives rise to taxable and deductible temporary differences that are not equal.
Amendments to IFRS 17 – Insurance Contracts - Initial application of IFRS 17 and IFRS 9 - Comparative Information	This amendment to IFRS 17 relates to the presentation of comparative information for financial assets in the initial application of IFRS 17. The amendment adds a transition option that allows an entity to apply an 'overlay' to the classification of a financial asset in the comparative period(s) presented in initially applying IFRS 17. The overlay allows all financial assets, including those held in relation to non-contractual activities within the scope of IFRS 17 to be classified, instrument by instrument, in the comparative period(s) in a manner aligned with how the entity expects those assets to be classified on initial application of IFRS 9.

NOTE 8 - MAIN ACCOUNTING ESTIMATES AND JUDGEMENTS USED IN THE PREPARATION OF THE FINANCIAL STATEMENTS

Considering that the current accounting framework requires applying judgements and calculating estimates involving some degree of subjectivity, the use of different parameters or judgements based on different evidence may result in different estimates. The main accounting estimates and judgments used in applying the accounting principles by the Group are discussed in this Note in order to improve the understanding of how their application affects the reported results of the Group and its disclosure.

The COVID-19 pandemic, despite the government and regulatory response measures adopted, resulted in an additional high level of uncertainty about the Portuguese and European economy and in particular banking activity, with an impact on the judgments and estimates used in the financial statements. However, the internal control policies and standards adopted by the Group allow us to consider that these judgments and estimates were made independently and appropriately as of 31 December 2021.

The relevant judgments made by management in the application of the Group's accounting policies and the main sources of uncertainty in the estimates were the same as those described in the last reporting of the Financial Statements.

8.1 Impairment of financial assets at amortised cost and at fair value through other comprehensive income

The critical judgements with greater impact on the recognized impairment values for the financial assets at amortised cost and at fair value through other comprehensive income are the following:

- Assessment of the business model: the measurement and classification of financial assets depends on the results of SPPI test and on the business model setting. The Group determines its business model based on how it manages the financial assets and its business objectives. The Group monitors if the business model classification is appropriate based on the analysis on the anticipated derecognition of the assets at amortised cost or at fair value through other comprehensive income, assessing if it is necessary to prospectively apply any changes;
- Significant increase on the credit risk: as mentioned on the Note 7.16 – Other financial assets investments in credit institutions, customer loans and securities, the determination of the transfer of an asset from stage 1 to stage 2 with the purpose of determining the respective impairment is made based on the judgement that, in accordance to the Group management, constitutes a significant increase on credit risk;
- Classification of default: Grupo novobanco's internal definition of exposure in default is broadly in line with the regulatory definition in Article 178 of CRR/CRD IV. This regulation defines qualitative criteria for assessing the default classification – unlikely to pay -, which are replicated in the internal

definition implemented by Grupo novobanco and which result in performing judgements when assessing the high probability that the borrower does not fulfil its obligations within the conditions agreed with Grupo novobanco. This concept is covered in more detail below;

- Definition of groups of financial assets with similar credit risk characteristics: when the expected credit losses are measured through collective model, the financial instruments are aggregated based on the same risk characteristics. The Group monitors the credit risk characteristics in order to assure the correct reclassification of the assets, in cases of changes on the credit risk characteristics;
- Models and assumptions: The Group uses several models and assumptions on the measurement of the expected credit losses. The judgement is applied on the identification of the more appropriate model for each type of asset as well as in the determination of the assumptions used in these models, including the assumptions related with the main credit risk drivers. In addition, in compliance with the IFRS9 regulation that clarifies the need for the impairment result to consider multiple scenarios, a methodology for incorporating different scenarios into the risk parameters was implemented. Thus, the calculation of collective impairment considers several scenarios with a specific weighting, based on the internal methodology defined about scenarios - definition of multiple perspectives of macroeconomic evolution, with probability of relevant occurrence.

8.2. Fair value of derivative financial instruments and other financial assets and financial liabilities at fair value

Fair value is based on listed market prices when available; otherwise, fair value is determined based on similar recent arm's length transaction prices or using valuation methodologies, based on the net present value of estimated future cash flows taking into consideration market conditions, the time value, the yield curve and volatility factors, in accordance with IFRS 13 - Fair Value Measurement. The Group uses several models and assumption in measuring the fair value of financial assets. Judgement is applied on the identification of the more appropriate model for each type of asset as well as in the determination of the assumptions used in these models, including the assumptions related with the main credit risk drivers.

Consequently, the use of a different methodology or different assumptions or judgements in applying a particular model could have produced different financial results, summarised in Note 42.

8.3. Corporate income taxes

The Group is subject to corporate income tax in numerous jurisdictions. Certain interpretations and estimates are required in determining the overall corporate income tax amount. Different interpretations and estimates could result in a different level of income tax, current and deferred, being recognized in the period and evidenced in Note 30.

This aspect assumes additional relevance for effects of the analysis of the recoverability of deferred taxes, while the Bank considers forecasts of futures taxable profits based on a group of assumptions, including the estimate of income before taxes, adjustments to the taxable income and its interpretation of fiscal legislation. This way, the recoverability of deferred taxes depends on the concretization of the strategy of the Executive Board of Directors, namely in the capacity to generate the estimated taxable results and its interpretation of fiscal legislation.

The Tax Authorities are charged with reviewing the calculation of the tax base made by the Bank during a period of four or twelve years, in the event of reportable tax losses. Thus, it is possible that there are corrections to the tax base, resulting mainly from differences in the interpretation of tax legislation. However, the Bank's Executive Board of Directors believes that there will be no significant corrections to taxes on profits recorded in the financial statements.

8.4. Pensions and other employee benefits

The determination of the retirement pension liabilities presented in Note 16 requires the use of assumptions and estimates, including the use of actuarial tables, assumptions regarding the growth of pensions, salaries and discounts rates (which are determined based on the market rates associated with high quality corporate bond, denominated in the same currency in which the benefits will be paid and with a maturity similar to the expiry date of the plan's obligations). These assumptions are based on the expectations of the novobanco Group for the period during which the liabilities will be settled as well as other factors that may impact the costs and liabilities of the pension plan.

Changes in these assumptions could materially affect the amounts determined.

8.5. Provisions and Contingent liabilities

The recognition of provisions involves a significant degree of complex judgment, namely identifying whether there is a present obligation and estimating the probability and timing, as well as quantifying the outflows that may arise from past events. When events are at an early stage, judgments and estimates can be difficult to quantify due to the high degree of uncertainty involved. The Executive Board of Directors monitors these matters as they develop to regularly reassess whether the provisions should be recognized. However, it is often not feasible to make estimates, even when events are already at a more advanced stage, due to existing uncertainties.

The complexity of such issues often requires expert professional advice in determining estimates, particularly in terms of legal and regulatory issues. The amount of recognized provisions may also be sensitive to the assumptions used, which may result in a variety of potential results that require judgment in order to determine a level of provision that is considered appropriate in view of the event in question.

8.6. Investment properties, Foreclosed assets and Non-current assets held for sale

Investment properties are initially recognized at cost, including directly related transaction costs and subsequently at fair value. Foreclosed assets and Non-current assets held for sale are measured at the lower of the net book value and the fair value less costs to sell.

The fair value of these assets is determined based on valuations conducted by independent entities specialized in this type of service, using the market, income or cost methods, as defined in Notes 7.18 and 7.19. The valuation reports are analysed internally, namely comparing the sales values with the revalued values of the properties, to keep the valuation parameters and processes updated to the market evolution.

The use of alternative methodologies and different assumptions may result in a different level of fair value with respective impact on the recognized balance sheet value.

8.7. Entities included in the consolidation perimeter

For the determination of the entities to be included in the consolidation perimeter, the Group evaluates the extent to which (i) it is exposed, or has rights, to the variability of the return from its involvement with this entity, and (ii) it can seize that return through of its power. In this analysis, the Group also considers shareholder agreements that may exist and that result in the power to take decisions that impact the management of the entity's activity. The decision that an entity should be consolidated by the Group requires the use of judgments to determine to what extent the Group is exposed to the variability of an entity's return and has the power to seize that return. In using this judgment, the Group analyses assumptions and estimates. Thus, other assumptions and estimates could lead to a different consolidation perimeter, with a direct impact on the balance sheet.

8.8 Significant judgment in determining contract lease term

The Group has applied judgment to determine the lease term of certain agreements, in which it acts as lessee, and which include renewal and termination options. The Group determines the lease term as the non-cancellable lease term, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if reasonably certain not to be exercised. This assessment will have an impact on the lease term, which will significantly affect the amount of the lease liabilities and recognized right-of-use assets.

The Group has the option, namely in real estate lease agreements, to lease assets for additional periods from 1 month to 20 years. The Group applies judgment in assessing whether it is reasonably right to exercise the renewal option. That is, it considers all the relevant factors that create an economic incentive for renewal.

NOTE 9 – SEGMENT REPORTING

novobanco Group activities are centered on the financial sector targeting corporate, institutional and private individual customers. Its decision center is in Portugal, making the domestic territory its main market.

The products and services rendered include deposit taking, granting of loans to corporate and private customers, investment fund management, broker and custodian services and the commercialization of life and non-life insurance products. Additionally, the Group makes short-, medium- and long-term investments in the financial and currency exchange markets with the objective of taking advantage of price changes or to get returns on its available financial resources.

For this purpose, as at 31 December 2021, the Group has novobanco as its main operating unit - with 291 branches in Portugal (31 December 2020: 339 branches) and branches in Luxembourg and Spain and 4 representation offices – with novobanco Açores (13 branches), Banco BEST (6 branches), GNB GA, amongst other companies.

When evaluating performance by business area, the Group considers the following Operating Segments: (1) Domestic Commercial Banking, including Retail, Corporate and Private Banking; (2) International Commercial Banking; (3) Asset Management; (4) Markets; and (5) Corporate Centre. Each segment integrates the novobanco structures that directly relate to it, as well as the units of the Group whose businesses are mainly related to the segments. The individual and independent monitoring of each operating unit of the Group is complemented, at the Executive Board of Directors of novobanco level, by the definition of specific strategies and commercial programs for each unit.

During 2020, novobanco started the sale process of the Spanish Branch, which was reclassified to a discontinued operation. With the completion of the Branch's asset and liability sale transaction in November 2021, the remaining assets and liabilities of the Branch are no longer integrated as a discontinued operation.

9.1. Description of the operating segments

Each of the operating segments includes the following activities, products, customers and Group structures, aggregated by criteria of risk, market / geography and nature of the products and services:

Domestic Commercial Banking

This Operating Segment includes all the banking activity developed on national territory involving corporate and private customers and using the branch network, corporate centres and other channels, and includes the following sub segments:

a. **Retail:** corresponds to all the activity developed in Portugal with private customers and small businesses. The financial information of the segment relates, amongst other products and services, to mortgage loans, consumer credit, small business financing, deposits, retirement plans and other insurance products sold to private customers, account management and electronic payments and placement of investment funds, brokerage and custodian services;

b. **Corporate and Institutional:** includes the activities developed in Portugal with medium- and large-sized companies, developed through a commercial structure dedicated to this segment, which includes 20 Corporate Centres. This segment also includes activities with institutional and municipal customers. The Group maintains an important presence in this segment, the result of the support it has lent to the development of the national business community, focused on companies with good risk, an innovative nature and an exporter activity;

c. **Private Banking:** In accordance with the commitments made to the Directorate General for Competition of the European Commission, the Bank discontinued the provision of private banking services and therefore this segment is no longer reported.

International Commercial Banking

This Operating Segment integrates the units located abroad, which banking activities focus both on corporate and private customers, excluding the asset management business, which is integrated in the corresponding segment.

Amongst the units comprising this segment are novobanco's branches in Luxembourg and Spain. The aggregation of this units in the same segment is related with the geographic criteria and with the nature of the clients, the products and the services provided.

Asset Management

This segment, which depends on the specific nature of the products and services provided, includes the asset management activities developed both in Portugal and abroad through specialised companies incorporated for the purpose. The product range includes all types of funds - investment funds, real estate funds and pension funds - as well as discretionary management and portfolio management.

Markets

This segment includes the overall financial management of the Group, including the taking and ceding of funds on the financial markets, as well as the investment and risk management of credit, interest rate, currency and securities instruments, whether of a strategic nature or related to the current activity of the Markets' area. It also covers the activity involving non-resident institutional investments and the effects of strategic decisions with a transversal impact on the Group.

Corporate Centre

This area does not correspond to an operational segment in the true sense of the concept, it is an aggregation of transversal corporate structures that ensure the basic functions of the Group's global management, such as those linked to the Administration and Supervision, Compliance, Planning, Accounting, Risk Management and Control, Institutional Communication, Internal Audit, Organization and Quality, among others. Since the Bank is in a tax loss situation in the first six months of 2021 and 2020, the deferred taxes recognized were fully allocated to this segment.

9.2. Criteria for the allocation of activities and results to the operating segments

The financial information presented for each segment was prepared in accordance with the criteria followed in the preparation of the internal information that is analysed by the Executive Board of Directors of the Group, as required by IFRS.

The accounting policies applied in the preparation of the financial information related to the operating segments are consistent with those used in the preparation of these consolidated financial statements, which are described in Note 7, with the adoption of the following additional principles:

Measurement of the profit or loss of the segments

The Group uses net income / (loss) before taxes as the measure of the profit or loss for purposes of evaluating the performance of each operating segment.

Autonomous operating units

As mentioned above, each autonomous operating unit (foreign branches, subsidiaries and associated companies) is evaluated separately, as each of these units is considered an investment centre. Additionally, based on the characteristics of the primary business developed by these units, they are fully integrated into one of the Operating Segments, i.e. their assets, liabilities, income and expenses.

novobanco's structures dedicated to the Segment

novobanco's activity, given its characteristics, can be allocated to most of its operating segments and is, therefore, accordingly disaggregated.

For purposes of allocating the financial information, the following principles are used: (i) the origin of the operation, i.e. the operation is allocated to the same segment that the commercial structure that originated it integrates, even if, in a subsequent phase, the Group, strategically, decides to securitize some of the assets; (ii) the allocation of a commercial margin to mass-products, defined at top management level when the products are launched; (iii) for non-mass products, the allocation of a margin directly negotiated by the commercial structures with customers; (iv) the allocation of the direct costs of commercial and central structures dedicated to the segment; (v) the allocation of indirect costs (central support and IT services) determined based on specific drivers; (vi) the allocation of credit risk determined in accordance with the impairment model; and (vii) the allocation of novobanco 's total equity to the Markets segment.

The transactions between the legally autonomous units of the Group are made at market prices; the price for services rendered between the structures of each unit, namely the price established for internal funding between units, is determined using the margins process referred to above (which varies in accordance with the strategic relevance of the product and the equilibrium of the structures' funding and lending functions); the remaining internal transactions are allocated to the segments, without any margin for the supplier; the strategic decisions and/or of an exceptional nature are analysed on a case-by-case basis, with the income and/or costs being generally allocated to the Markets segment.

The interest rate risk, currency risk, liquidity risk and others, excluding credit risk, are included in the Financial Department, which mission it is to undertake the Group's financial management, and which activity and results are included in the Markets segment.

Interest and similar income / expense

Since the Group's activities are exclusively carried out in the financial sector, the income reflects, fundamentally, the difference between interest received on assets and interest paid on liabilities. This situation and the fact that the segment evaluation is based on margins previously negotiated or determined for each product, leads to the presentation of the results from the intermediation activity, as permitted by IFRS 8, paragraph 23, at the net value of interest, under the designation "Net interest income / expense".

Investments presented using the equity method

Investments in associated companies presented under the equity method are included in the Markets segment, in the case of novobanco's associated companies. For other associated companies of the Group, these entities are included in the segment to which they relate.

Non-current assets

Non-current assets, according to IFRS 8, include Tangible fixed assets, Intangible assets and Non-current assets held for sale. novobanco includes these assets in the Markets segment, with the non-current assets held by the remaining subsidiaries being allocated to the segment in which these subsidiaries primarily develop their business.

Corporate income tax

Corporate income tax is part of the Group's net income that, for purposes of monitoring the performance of the Operating Segments, by the Executive Board of Directors, does not affect the evaluation of most of the Operating Segments. In the tables presented below the deferred tax recognized in net income for the year are included in the Corporate Centre. Deferred tax assets and liabilities are included in the Markets segment.

Domestic and International Areas

In presenting the financial information by geographical areas, the operating units that make up the International Area are the branches of novobanco in Spain and Luxembourg, the subsidiaries NB Servicios and Novo Vanguarda (both settled during 2021), the units located outside GNB GA, and also Banco Delle Tre Venezie (no longer part of the Group's perimeter during 2021) and Ijar Leasing Algérie as discontinued operations.

The financial and economic elements related to the international area are those consistent with the financial statements of such units, with the respective consolidation adjustments and eliminations.

The segment reporting is presented as follows:

(in thousands of Euros)

	31.12.2021							
	Retail	Corporate and Institutional	International Commercial Banking	Asset Management	Life Insurance	Markets	Corporate centre	**Total**
Net interest income	184 453	196 875	30 391	(4)	-	161 679	-	573 394
Net fees and comissions	177 343	85 548	10 053	27 303	-	(22 093)	-	278 154
Other operating income	(9 690)	15 640	22 162	(643)	-	90 940	-	118 409
Total operating income	352 106	298 063	62 606	26 656	-	230 526	-	969 957
Operating expenses	257 673	208 273	21 064	12 620	-	196 775	105 230	801 635
Of which:								
Provisions / Impairment losses	*16 167*	*178 816*	*13 418*	*330*	-	*144 006*	-	*352 737*
Depreciation and amortization	*14 979*	*915*	*576*	*715*	-	*1 097*	*15 722*	*34 004*
Net gains / (losses) from investments in subsidiaries, joint ventures and associated companies registered by the equity method	-	-	-	-	-	3 794	-	3 794
Profit / (loss) from continued operations before taxes and non-controlling interests	**94 433**	**89 790**	**41 542**	**14 036**	**-**	**37 545**	**(105 230)**	**172 116**
Taxes	-	-	1 734	4 102	-	-	(21 022)	(15 186)
Profit / (loss) of discontinued operations	-	-	8 796	-	-	(3 909)	-	4 887
Net Profit / (loss) for the year attributable to non-controlling interests	2 053	-	-	-	-	5 632	-	7 685
Net Profit / (loss) for the year attributable to Shareholders of the parent	**92 380**	**89 790**	**48 604**	**9 934**	**-**	**28 004**	**(84 208)**	**184 504**
Intersegment operating income (1)	*2 018*	*6 486*	*122 553*	*9*	-	*(126 289)*	-	*4 777*
Total Net Assets	**20 912 255**	**10 131 250**	**2 347 139**	**97 837**	**-**	**11 130 034**	**-**	**44 618 515**
Total Liabilities	**20 605 900**	**9 983 157**	**2 262 731**	**11 127**	**-**	**8 606 129**	**-**	**41 469 044**
Investments in associated companies	**-**	**-**	**-**	**-**	**-**	**94 590**	**-**	**94 590**
Investments in tangible fixed assets	**859**	**-**	**-**	**78**	**-**	**81 030**	**6**	**81 973**
Investments in intangible assets	**288**	**-**	**-**	**27**	**-**	**25 381**	**-**	**25 696**
Investments in investment properties	**-**	**-**	**-**	**-**	**-**	**4 973**	**-**	**4 973**
Investments in other assets - real estate properties	**449**	**-**	**2 511**	**-**	**-**	**41 702**	**-**	**44 662**

(1) Intersegment operating income refers essentially to interest (net interest income)

(in thousands of Euros)

	31.12.2020							
	Retail	Corporate and Institutional	International Commercial Banking	Asset Management	Life Insurance	Markets	Corporate centre	**Total**
Net interest income	200 736	221 839	19 687	(11)	-	112 883	-	555 134
Net fees and comissions	165 851	98 403	10 022	26 023	-	(33 781)	-	266 518
Other operating income	19 288	24 873	(28 727)	170	-	(493 298)	-	(477 694)
Total operating income	385 875	345 115	982	26 182	-	(414 196)	-	343 958
Operating Costs	354 653	515 379	29 252	14 755	-	639 600	104 713	1 658 352
Of which:								
Provisions / Impairment losses	*100 195*	*477 820*	*20 996*	*1 624*	-	*590 828*	-	*1 191 463*
Depreciation and amortization	*12 355*	*920*	*668*	*640*	-	*1 215*	*17 274*	*33 072*
Net gains / (losses) from investments in subsidiaries, joint ventures and associated companies registered by the equity method	-	-	-	-	-	9 430	-	9 430
Profit / (loss) from continued operations before taxes and non-controlling interests	**31 222**	**(170 264)**	**(28 270)**	**11 427**	**-**	**(1 044 366)**	**(104 713)**	**(1 304 964)**
Taxes	-	-	55	3 104	-	11 617	(13 694)	1 082
Profit / (loss) of discontinued operations	-	-	(40 830)	1 498	8 057	(2 070)	-	(33 345)
Net Profit / (loss) for the year attributable to non-controlling interests	1 134	-	-	-	-	(11 208)	-	(10 074)
Net Profit / (loss) for the year attributable to Shareholders of the parent	**30 088**	**(170 264)**	**(69 155)**	**9 821**	**8 057**	**(1 046 845)**	**(91 019)**	**(1 329 317)**
Intersegment operating income (1)	*4 164*	*5 977*	*78 170*	*189*	-	*(80 342)*	-	*8 158*
Total Net Assets	**20 626 864**	**10 704 403**	**4 474 776**	**88 507**	**-**	**8 501 036**	**-**	**44 395 586**
Total Liabilities	**20 372 193**	**10 862 412**	**4 470 127**	**11 554**	**-**	**5 532 665**	**-**	**41 248 951**
Investments in associated companies	**-**	**-**	**-**	**-**	**-**	**93 630**	**-**	**93 630**
Investments in tangible fixed assets	**3 718**	**-**	**305**	**825**	**-**	**43 093**	**344**	**48 285**
Investments in intangible assets	**340**	**-**	**-**	**18**	**-**	**26 508**	**-**	**26 866**
Investments in other assets - real estate properties	**624**	**-**	**1 941**	**-**	**-**	**28 126**	**-**	**30 691**

(1) Intersegment operating income refers essentially to interest (net interest income)

The geographical information of the different business units of the Group is as follows:

(in thousands of Euros)

	31.12.2021						
	Portugal	Spain	Luxembourg	Brazil	Angola	Other	Total
Net profit / (loss) for the period attributable to Shareholders of the parent	151 404	2 436	31 016	(352)	-	-	184 504
(of which: rel. to discontinued units)	*87*	*5 171*	-	*(371)*	-	-	4 887
Total income	4 609 947	8 890	243 098	-	-	-	4 861 935
Intersegment operating income	*(110 374)*	-	*115 151*	-	-	-	*4 777*
Net assets	42 650 983	56 346	1 902 794	1 006	3 060	4 326	44 618 515
(of which: rel. to discontinued units)	*3 339*	-	-	*1 006*	*702*	*4 326*	*9 373*
Investments in associated companies	94 590	-	-	-	-	-	94 590
Investments in tangible fixed assets	81 973	-	-	-	-	-	81 973
Investments in intangible assets	25 696	-	-	-	-	-	25 696
Investments in investment properties	4 973	-	-	-	-	-	4 973
Investments in other assets - real estate properties	42 151	2 511	-	-	-	-	44 662
Profits / (losses) of continuing operating units before taxes and non-controlling interests	126 120	4 898	41 450	(352)	-	-	172 116
Turnover [(a) (b)]	1 196 888	94	172 529	-	-	-	1 369 511
Number of employees [(a)]	4 165	10	11	-	-	7	4 193

[(a)] Financial information presented according to art. 2 of DL no. 157/2014

[(b)] Turnover corresponds to the sum of the following items in the consolidated operating account: interest income, dividend income, fee and commission income, gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss on financial assets and liabilities held for trading, gains or losses on financial assets mandatorily at fair value through profit or loss, gains or losses on financial assets and liabilities carried at fair value through profit or loss hedge accounting losses, exchange differences, gains or losses on derecognition of non-financial assets, other operating operating income and proportion of profits or losses on investments in subsidiaries, joint ventures and associates accounted for under the equity method.

(in thousands of Euros)

	31.12.2020								
	Portugal	Spain	Luxembourg	Brazil	Angola	Cape Verde	Macao	Other	Total
Net profit / (loss) for the period attributable to Shareholders of the parent	(1 300 233)	(37 559)	8 322	153	-	-	-	-	(1 329 317)
(of which: rel. to discontinued units)	*6 466*	*(39 811)*	-	-	-	-	-	-	*(33 345)*
Total income	4 693 042	-	244 271	1 054	-	-	-	-	4 938 367
Intersegment operating income	*(41 855)*	-	*50 013*	-	-	-	-	-	*8 158*
Net assets	40 323 724	2 062 005	1 998 432	1 740	3 060	-	-	6 625	44 395 586
(of which: rel. to discontinued units)	*7 861*	*1 545 138*	-	-	*1 037*	*1 299*	*1 883*	*2 300*	*1 559 518*
Investments in associated companies	93 630	-	-	-	-	-	-	-	93 630
Investments in tangible fixed assets	47 980	-	305	-	-	-	-	-	48 285
Investments in intangible assets	26 866	-	-	-	-	-	-	-	26 866
Investments in other assets - real estate properties	28 750	1 941	-	-	-	-	-	-	30 691
Profits / (losses) of continuing operating units before taxes and non-controlling interests [(a)]	(1 315 492)	(817)	11 187	158	-	-	-	-	(1 304 964)
Turnover [(a) (b)]	695 966	-	107 489	438	-	-	-	-	803 893
Number of employees [(a)]	4 560	-	10	5	-	-	-	7	4 582

[(a)] Financial information presented according to art. 2 of DL no. 157/2014

[(b)] Turnover corresponds to the sum of the following items in the consolidated operating account: interest income, dividend income, fee and commission income, gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss on financial assets and liabilities held for trading, gains or losses on financial assets mandatorily at fair value through profit or loss, gains or losses on financial assets and liabilities carried at fair value through profit or loss hedge accounting losses, exchange differences, gains or losses on derecognition of non-financial assets, other operating operating income and proportion of profits or losses on investments in subsidiaries, joint ventures and associates accounted for under the equity method.

NOTE 10 – NET INTEREST INCOME

The breakdown of this caption as at 31 December 2021 and 2020 is as follows:

(in thousands of Euros)

	31.12.2021					31.12.2020				
	Calculated by the effective interest method			Other		Calculated by the effective interest method			Other	
	Assets / liabilities at amortized cost	From assets / liabilities at fair value through other comprehensive income	Income/expenses from negative interest rates	From assets / liabilities at fair value through profit or loss	Total	Assets / liabilities at amortized cost	From assets / liabilities at fair value through other comprehensive income	Income/expenses from negative interest rates	From assets / liabilities at fair value through profit or loss	Total
Interest Income										
Interest from loans and advances	498 967	12 965	-	-	511 932	524 695	13 388	-	-	538 083
Interest from deposits with and loans and advances to banks	13 528	-	75 062	-	88 590	19 111	-	39 401	-	58 512
Interest from securities	51 973	71 585	-	9 211	132 769	43 713	82 093	-	10 793	136 599
Interest from derivatives held for risk management purposes	-	-	1 544	4 576	6 120	-	-	1 630	8 353	9 983
Other interest and similar income	1 048	-	-	-	1 048	530	-	-	-	530
	565 516	**84 550**	**76 606**	**13 787**	**740 459**	**588 049**	**95 481**	**41 031**	**19 146**	**743 707**
Interest Expenses										
Interest on debt securities issued	36 732	-	-	-	36 732	39 487	-	-	-	39 487
Interest on amounts due to customers	51 328	-	-	-	51 328	71 688	-	-	-	71 688
Interest on deposits from Central Banks and other banks	7 026	-	11 380	-	18 406	15 991	-	2 750	-	18 741
Interest on subordinated liabilities	34 168	-	-	-	34 168	34 165	-	-	-	34 165
Interest on derivatives held for risk management purposes	-	-	6 991	11 311	18 302	-	-	5 771	10 816	16 587
Other interest and similar expenses	7 024	-	1 105	-	8 129	7 549	-	356	-	7 905
	136 278	**-**	**19 476**	**11 311**	**167 065**	**168 880**	**-**	**8 877**	**10 816**	**188 573**
	429 238	**84 550**	**57 130**	**2 476**	**573 394**	**419 169**	**95 481**	**32 154**	**8 330**	**555 134**

On December 31, 2021, the item interest on loans and advances includes Euro 31,037 thousand related to finance lease operations (December 31, 2020: Euro 35,385 thousand).

In relation to repurchase agreement operations, interest from deposits from Other banks includes, as of December 31, 2021, the amount of Euro 2,301 thousand (December 31, 2020: Euro 16 thousand in customer deposits and Euro 822 thousand in interest from deposits of other banks).

Interest income and expense items related to derivative interest include, according to the accounting policy described in Notes 7.10.6 and 7.2, interest from hedging derivatives and from derivatives used to manage the economic risk of certain financial assets and liabilities designated at fair value through profit or loss, as per the accounting policies described in Notes 7.10.6 and 7.10.7.

NOTE 11 – DIVIDEND INCOME

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Financial assets mandatorily at fair value through profit or loss		
Shares	2 162	1 781
Euronext NV	1 801	1 391
Visa Inc CL C	226	261
Others	135	129
Participation units	7 604	6 407
Explorer III B	7 604	634
Fundo Solução Arrendamento	-	3 141
Fundo Arrendamento Mais	-	1 593
Others	-	1 039
Financial assets measured at fair value through other comprehensive income		
Shares	1 330	8 290
FLITPTREL X	-	6 000
SIBS SGPS	785	978
ESA Energia	275	1 106
Others	270	206
	11 096	**16 478**

NOTE 12 – FEE AND COMMISSION INCOME AND FEE AND COMISSION EXPENSES

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Fees and commissions income		
From banking services	243 938	233 059
From guarantees provided	32 917	35 096
From transaction of securities	7 108	5 241
From commitments to third parties	7 998	8 065
From transactions carried out on behalf of third parties - cross-selling	32 320	30 882
Other fee and commission income	1 230	1 480
	325 511	**313 823**
Fees and commissions expenses		
With banking services rendered by third parties	32 842	32 525
With guarantees received	1 564	1 755
With transaction of securities	2 455	2 527
Other fee and commission income	10 496	10 498
	47 357	**47 305**
	278 154	**266 518**

NOTE 13 – NET TRADING INCOME

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2021			31.12.2020		
	Gains	Losses	Total	Gains	Losses	Total
Gains or losses on financial assets and liabilities not measured at fair value through profit or loss						
From financial assets at fair value through other comprehensive income						
Securities						
Bonds and other fixed income securities						
Issued by government and public entities	17 198	12 758	4 440	95 449	6 529	88 920
Issued by other entities	11 021	1 073	9 948	1 010	7 482	(6 472)
	28 219	**13 831**	**14 388**	**96 459**	**14 011**	**82 448**
From financial assets and liabilities at amortised cost						
Securities						
Bonds and other fixed income securities						
Issued by other entities	-	142	(142)	6 281	154	6 127
Loans	12 639	32 008	(19 369)	8 336	8 439	(103)
	12 639	**32 150**	**(19 511)**	**14 617**	**8 593**	**6 024**
	40 858	**45 981**	**(5 213)**	**111 076**	**22 604**	**88 472**
Gains or losses on financial assets and liabilities held for trading						
Securities						
Bonds and other fixed income securities						
Issued by government and public entities	3 252	14 507	(11 255)	13 710	13 121	589
Issued by other entities	43	20	23	5	-	5
Financial Derivatives						
Foreign exchange rate contracts	59 421	62 678	(3 257)	68 313	52 606	15 707
Interest rate contracts	424 716	360 721	63 995	604 219	713 130	(108 911)
Equity / Index contracts	31 491	30 678	813	82 587	81 270	1 317
Credit default contracts	16	18	(2)	42	71	(29)
Other	4 179	3 600	579	488	777	(289)
	523 118	**472 222**	**50 896**	**769 364**	**860 975**	**(91 611)**
Gains or losses on financial assets mandatorily measured at fair value through profit or loss						
Securities						
Bonds and other fixed income securities						
Issued by other entities	15 796	5 497	10 299	12 877	36 600	(23 723)
Shares	25 726	471	25 255	23 557	141 372	(117 815)
Other variable income securities	24 956	13 813	11 143	746	223 208	(222 462)
	66 478	**19 781**	**46 697**	**37 180**	**401 180**	**(364 000)**
Gains or losses on financial assets and liabilities designated at fair value through profit and loss						
Securities						
Other variable income securities	34	13	21	-	-	-
	34	**13**	**21**	**-**	**-**	**-**
Gains or losses from hedge accounting						
Fair value changes of hedging instruments						
Foreign exchange rate contracts	89 079	41 684	47 395	76 026	98 036	(22 010)
Fair value changes of hedging item attributable to hedged risk	9 778	42 978	(33 200)	50 369	40 000	10 369
	98 857	**84 662**	**14 195**	**126 395**	**138 036**	**(11 641)**
Foreign exchange revaluation	1 134 393	1 123 588	10 805	1 305 708	1 308 122	(2 414)
	1 863 738	**1 746 247**	**117 491**	**2 349 723**	**2 730 917**	**(381 194)**

Gains or losses on financial assets and financial liabilities held for trading

In accordance with the accounting policy described in Note 7.5, financial instruments are initially recorded at fair value. It is deemed that the best evidence of the fair value of the instrument at inception is the transaction price. However, in certain circumstances, the fair value of a financial instrument at inception, determined based on valuation techniques, may differ from the transaction price, namely due to the existence of an intermediation fee, originating a day one profit.

The Group recognizes in its income statement the gains arising from the intermediation fee (day one profit), which is generated, primarily, through currency and derivative financial product intermediation, given that the fair value of these instruments, both at inception and subsequently, is determined based solely on observable market data and reflects the Group's access to the (wholesale market).

As at 31 December 2021, the gains recognized in the income statement arising from intermediation fees, which are essentially related to foreign exchange transactions, amounted to approximately Euro 1,867 thousand (31 December 2020: Euro 5,100 thousand).

Gains or losses on financial assets mandatorily at fair value through profit or loss

As at December 31, 2020, gains or losses on financial assets that are mandatorily accounted for at fair value through profit or loss - securities - shares and other variable income securities include a loss of Euro -300.2 million, resulting from the completion of an independent appraisal of the restructuring funds. These funds are "level 3" assets in accordance with the IFRS 13 fair value hierarchy (quotations provided by third parties whose parameters used are not observable in the market), and novobanco requested an independent evaluation from an international consulting company in articulation with real estate consultancy companies. This work resulted in a market value of Euro 498.8 million for the total investment held in these assets (see Note 24), which led to the recording of the said loss of Euro -300.2 million in 2020 (see Note 42).

Gains or losses on hedge accounting

Gains or losses on hedge accounting include the fair value variations of the hedging instrument (derivative) and the fair value variations of the hedged item attributable to the hedged risk. In the case where the hedge operations are interrupted early, there may occur the payment/receipt of compensation, which is recorded in Other operating expenses/ Other operating income. As of December 31, 2021, the amount of compensation received amounted to Euro 1,726 thousand (December 31, 2020: Euro 10,181 thousand).

Foreign exchange differences

This caption includes the results arising from the foreign currency revaluation of monetary assets and liabilities denominated in foreign currency in accordance with the accounting policy described in Note 7.1.

NOTE 14 – GAINS OR LOSSES ON DERECOGNITION OF NON-FINANCIAL ASSETS

The breakdown of this caption is as follows:

	31.12.2021	31.12.2020
Real Estate	6 761	(3 069)
Equipment	294	(307)
Other	495	(40)
	7 551	**(3 416)**

NOTE 15 – OTHER OPERATING INCOME AND OTHER OPERATING EXPENSES

The breakdown of these captions is as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Other operating income		
IT Services	-	-
Gains / (losses) on recoveries of loans	27 293	30 181
Non-current advisory services	355	264
Income of Funds and real estate companies	13 537	29 955
Gains on the acquisition of debt issued by the Group (see Note 33)	-	-
Gains on investment properties revaluation (see Note 28)	49 935	3 590
Other income	72 755	56 742
	163 875	**120 732**
Other operating expenses		
Losses on repurchase of Group debt securities (see Note 33)	(73 522)	(26 998)
Direct and indirect taxes	(6 588)	(8 476)
Revaluation of liabilities	-	-
Contribution on the banking sector and solidarity additional	(34 087)	(32 752)
Membership fees and donations	(2 430)	(1 666)
Expenses of Funds and real estate companies	(6 458)	(11 647)
Charges with Supervisory entities	(1 849)	(2 321)
Contractual Indemnities (SPE)	(1 723)	(86)
Losses on investments properties revaluation (see Note 28)	(18 753)	(107 900)
Other expenses	(36 194)	(38 448)
	(181 604)	**(230 294)**
Other operating income / (expenses)	**(17 729)**	**(109 562)**

As at 31 December 2021, the amount received as compensation for discontinued hedging operations, included in other income, amounts to Euro 1,726 thousand (31 December 2020: Euro 10,181 thousand) (see Note 13).

Pursuant to Law No. 55-A/2010, of 31 December, a Bank Levy was established, which is levied on the average annual liabilities recorded on the balance sheet net of own funds and of deposits covered by the guarantee of the Deposit Guarantee Fund and on the national amount of derivative financial instruments, and whose regime has been extended.

As at 31 December 2021, novobanco Group recognized Banking Levy charges as a cost in the amount of Euro 28,893 thousand (31 December 2020: Euro 27,439 thousand). The cost recognized as at 31 December 2021 has been calculated and paid based on the maximum rate of 0.110% levied on the average annual liabilities recorded on the balance sheet, net of own funds and deposits covered by the guarantee of the Deposit Guarantee Fund, approved by Law No. 7-A/2016, of 30 March and by Ordinance No. 165-A/2016, of 14 June.

In 2020, following one of the measures provided for in Economic and Social Stabilization Program (SSPE) and following the art. 18 of Law no. 27 -A / 2020, of July 24, the Solidarity Additional on the Banking Sector was created, which, similarly to what happens with the Contribution on the Banking Sector, is levied on the average annual liability calculated balance sheet deducted from own funds and deposits covered by the Deposit Guarantee Fund guarantee and on the notional value of derivative financial instruments. Its settlement is carried out until the end of June of the year following the year to which the surcharge relates. A transitional regime was established for the year 2020 and 2021, the settlement of which was carried out in accordance with the following rules: (i)The reserve base is calculated by reference to the half-yearly average of the final balances of each month, which correspond in the accounts for the first half of 2020, in the case of the solidarity surcharge due in 2020, and in the accounts for the second half of 2020 in the case of the solidarity surcharge due in 2021, published in compliance with the obligation established in Bank of Portugal Notice No. 1/2019; (ii) Settlement is carried out by the taxable person through the declaration to be sent until 15 December 2020 and 2021, respectively, with payment due on the same dates.

As at 31 December 2021, the Bank recognized as an expense in relation to the Solidarity Additional on the Banking Sector the amount of Euro 5,194 thousand (31 December 2020: Euro 5,313 thousand). The recognized expense was calculated and paid based on the maximum rate of 0.02% which is levied on the average annual liability calculated on the balance sheet less the own funds and deposits covered by the Deposit Guarantee Fund guarantee.

NOTE 16 – STAFF EXPENSES

The breakdown of these captions is as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Wages and salaries	179 007	183 818
Remuneration	178 468	182 867
Long-term service / Career bonuses (see Note 17)	539	951
Mandatory social charges	49 365	55 250
Costs with post-employment benefits (see Note 17)	946	1 735
Other costs	3 943	4 803
	233 261	**245 606**

The provisions and costs related to the restructuring process are presented in Note 34.

As at 31 December 2021 and 2020, the number of employees of novobanco Group has the following breakdown:

	31.12.2021	31.12.2020
Novo Banco employees	3 918	4 256
Employees of the Group's subsidiaries	275	326
Total employees of the Group	**4 193**	**4 582**

By professional category, the number of employees at novobanco Group is analysed as follows:

	31.12.2021	31.12.2020
Senior management functions	469	472
Middle management positions	456	513
Specific positions	1 980	2 175
Administrative and other functions	1 288	1 422
	4 193	**4 582**

NOTE 17 – EMPLOYEE BENEFITS

Pension and health-care benefits

As mentioned in accounting policy 7.27, the Group has undertaken to provide its employees, or their families, with cash benefits for old-age retirement, disability and survivors' pensions and other liabilities such as a Serviço de Assistência Médico-Social (SAMS), managed by the Union.

For employees hired until 31 December 2008, the retirement pension and the disability, survival and death pensions consecrated under the ACT, as well as the liabilities for health-care benefits (SAMS), are covered by a closed pension fund, managed by GNB – Sociedade Gestora de Fundos de Pensões, S.A.

Protection of employees in the event of maternity, paternity and adoption, as well as old age, is covered by the General Social Security Regime, given that with the publication of Decree-Law No. 1-A/2011, of 3 January, all banking employees who were beneficiaries of "CAFEB – Caixa de Abono de Família dos Empregados Bancários" were integrated in the General Social Security Regime as from 1 January 2011.

Employees hired after 31 December 2008 are covered by the Portuguese General Social Security Regime.

Retirement pensions of banking employees integrated in the General Social Security Regime within the scope of the 2nd tripartite agreement continue to be calculated in accordance with the provisions of the ACT and other conventions; however, banking employees are entitled to receive a pension under the General Regime that considers the number of years of contributions under that regime. The Banks are responsible for the difference between the pension determined in accordance with the provisions of the ACT and that which the banking employees are entitled to receive from the General Social Security Regime.

The contribution rate is 26.6%, 23.6% paid by the employer and 3% paid by the employees on the behalf of Caixa de Abono de Família dos Empregados Bancários (CAFEB), abolished by said Decree-law. In consequence of this change, pension entitlements of active employees are to be covered on the terms defined under the General Social Security Regime, for the length of their employment between 1 January 2011 and their retirement date. The differential required to make up the pension guaranteed under the ACT is paid by the Banks.

At the end of financial year 2011 and pursuant to the 3rd tripartite agreement, it was decided to transfer, definitively and irreversibly, to the General Social Security Regime all the banks' liabilities with pensions in payment to retirees and pensioners that were in that condition as at 31 December 2011 at constant values (0% discount rate) for the component foreseen in the "Instrumento de Regulação Coletiva de Trabalho" (IRCT) applicable to banking employees, including the eventualities of death, disability and survival. The liabilities relating to the updating of pension amounts, pension benefits other than those to be borne by Social Security, health-care contributions to SAMS, death allowances and deferred survivor's pensions will remain under the banks' responsibility, with the corresponding funding being met through the respective pension funds.

The agreement further established that the financial institutions' pension fund assets relating to the part allocated to the satisfaction responsibilities for those pensions, be transferred to the State.

According to the deliberation of the Board of Directors of Bank of Portugal of 3 August 2014 (8 p.m.), considering the resolution by the same Board of Directors of 11 August 2014 (5 p.m.), and the additional clarifications contained in the deliberation of the Board of Directors of Bank of Portugal, of 11 February 2015, it was clarified that the BES responsibilities not transferred to novobanco relate to the retirement and survival pensions and complementary retirement and survival pensions of the Directors of BES who had been members of its Executive Committee, as defined in BES's Articles of Association and BES's General Assembly Regulations to which the Articles of Association refer, not having, therefore, been transferred to novobanco, without prejudice to the transfer of the responsibilities relating exclusively to the employment contracts with BES.

Given the aforementioned, liabilities arising exclusively from the employment contracts with BES were transferred to novobanco. Considering the foregoing, only the pension fund liabilities arising from the Complementary Executive Committee Plan were split, with a part (described above) remaining in BES, with the other part being transferred to novobanco, together with the Pension Fund's liabilities relating to the Base Plan and the Complementary Plan.

To quantify the amounts relating to the split of the Pension Fund assets allocated to the liabilities that remained in BES, following the decision of Bank of Portugal of 11 February 2015, from those that were transferred to novobanco, the assets existing on 3 August 2014 were split in proportion to the liabilities calculated on the same date, allocated to each of the groups of former participants and beneficiaries allocated to each of the entities. The split performed on these terms will result, on 3 August 2014, in a level of funding of the Complementary Plan of the Executive Commission that is equal for each of the associates of the Fund (novobanco and BES).

On June 16, 2020, the Insurance and Pension Funds Supervisory Authority ("ASF") approved the extinction of the portion that finances the Plan of the former Executive Committee and, simultaneously, the amendment of the Constitutive Contract of the novobanco Pension Fund. This approval led to the creation of three aspects of the Executive Committee's Pension Plan: (i) Executive Committee - BES, (ii) Executive Committee - novobanco and (iii) Undivided Party. The assets of the undivided party are not allocated to any liability of novobanco or BES until the final decision of the court (limit of article 402º), so novobanco transferred the amount of Euro 19.2 million of net liabilities of the amount of the fund's assets relating to the undivided portion for Provisions.

On 1 June 2016, an amendment was made to Fundo de Pensões NB´s constitutive contract, where the complementary plan became a defined contribution instead of a defined benefit plan. Considering this, and in accordance with IAS 19, this plan´s responsibilities and assets are net of the amounts presented for the defined benefit plans.

On 31 December 2021, the amount of Euro 553 thousand was recorded in Personnel Costs related to the defined contribution plan (31 December 2020: Euro 535 thousand).

During 2021, two changes were made to the Pension Fund:

- **Inclusion of Social Security Pension – Pensioners**

  Until 2020, the methodology applied considered pensions in payment by the Pension Fund for the calculation of liabilities with pensioners. In 2021, this methodology was changed for pensioners who started a pension after 2011, and do not have a Social Security pension. For this group of pensioners with age below the normal retirement age of the General Social Security Regime (RGSS), the liability arising from a Social Security pension, to be paid from the normal retirement age of the RGSS, was deducted. As for pensioners over the normal retirement age of the RGSS, the liability arising from a Social Security pension, to be paid from the moment of assessment, was deducted.

- **Inclusion of acquired rights (Clause 98 ACT)**

  In 2021, liabilities with former employees who left novobanco Group after 2011, and who can claim rights to the Pension Fund under Clause 98 of the ACT, were included.

Pension plan participants are detailed as follows:

	31.12.2021	31.12.2020
Employees	4 095	4 417
Pensioners and survivors	6 997	6 949
Participants under clause 98	990	-
TOTAL	**12 082**	**11 366**

The Group's liabilities and coverage levels, calculated in accordance with the accounting policy defined in Note 7.27 - Employee benefits, reportable as of December 31, 2021 and 2020 are analysed as follows:

(in thousand Euros)

	31.12.2021	31.12.2020
Assets / (liabilities) recognized in the balance sheet		
Total liabilities	**(1 929 188)**	**(1 934 668)**
Pensioners	(1 334 872)	(1 368 021)
Employees	(594 316)	(566 647)
Coverage		
Fair value of plan assets	**1 907 928**	**1 907 616**
Net assets / (liabilities) in the balance sheet (See Notes 29 and 33)	**(21 260)**	**(27 052)**
Accumulated actuarial deviations recognized in other comprehensive income	**799 052**	**723 723**

According to the policy defined in Note 7.27 - Employee Benefits, the Group calculates liabilities for pensions and actuarial gains and losses half-yearly and evaluates at each balance sheet date and for each plan separately, the recoverability of the excess of the respective pension liabilities.

The evolution of the actuarial gains and losses in the balance sheet can be analysed as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Retirement pension liabilities at beginning of the exercise	**1 934 668**	**1 848 930**
Current service cost	434	425
Interest cost	18 836	23 870
Plan participants' contribution	2 656	2 617
Contributions from other entities	219	238
Actuarial (gains) / losses in the exercise:		
- Changes in financial assumptions	10 612	101 787
- Experience adjustments (gains) / losses	46 984	50 737
Pensions paid by the fund / transfers and once-off bonuses	(76 269)	(73 073)
Transfer to private party	-	(54 679)
Early retirement	38 562	32 902
Social Security and clause 98	(37 187)	-
Foreign exchange differences and other (1)	(10 327)	914
Retirement pension liabilities at end of the exercise	**1 929 188**	**1 934 668**

(1) Includes Euro 13,019 thousand resulting from the conclusion of the sale of assets and liabilities of the Spanish branch

The evolution of the value of pension funds in the years ended 31 December 2021 and 2020 can be analysed as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Fair value of fund assets at beginning of exercise	**1 907 616**	**1 695 857**
Net return from the fund	238	47 403
- Share of the net interest on the assets	15 928	19 891
- Return on assets excluding net interest	(15 690)	27 512
Group contributions	86 708	269 419
Plan participants' contributions	2 656	2 617
Pensions paid by the fund / transfers and once-off bonuses	(76 269)	(73 073)
Transfer to Undivided Party	-	(35 523)
Foreign exchange differences and other [1]	(13 021)	916
Fund balance at the end of the year	**1 907 928**	**1 907 616**

[1] Includes Euros 13,019 thousand from the assets and liabilities sale of the Spanish branch .

Pension fund assets can be analyzed as follows:

(in thousands of Euros)

	31.12.2021			31.12.2020		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Equity instruments	914	51 215	52 129	39 710	-	39 710
Debt instruments	1 187 975	-	1 187 975	1 105 727	-	1 105 727
Investment funds	279 949	103 278	383 227	324 480	71 489	395 969
Structured debt	63	15	78	66	31	97
Derivatives	-	74	74	-	75	75
Real estate properties	-	150 344	150 344	-	115 855	115 855
Cash and cash equivalents	-	134 101	134 101	-	250 183	250 183
Total	**1 468 901**	**439 027**	**1 907 928**	**1 469 983**	**437 633**	**1 907 616**

The pension fund assets used by the Group or representative of securities issued by entities of the Group are detailed as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Cash and cash equivalents	41 827	63 627
Participation units	86 684	131 265
Real estate properties	43 032	63 630
Total	**171 543**	**258 522**

The key actuarial assumptions used to calculate retirement pension and health-care liabilities are identical and are as follows:

	31.12.2021		31.12.2020	
	Assumptions	Actual	Assumptions	Actual
Actuarial Assumptions				
Projected rate of return on plan assets	1.35%	-0.24%	1.00%	2.41%
Discount rate	1.35%	-	1.00%	-
Pension increase rate	0.50%	0.36%	0.25%	1.34%
Salary increase rate	0.75%	2.05%	0.50%	3.07%
Mortality table men	TV 88/90		TV 88/90	
Mortality table women	TV 88/90-3 years		TV 88/90-2 years	

Disability decreases are not considered in the calculation of the liabilities. The determination of the discount rate as at 31 December 2021 and 31 December 2020 was based on: (i) the evolution of the main indices for high quality corporate bonds and (ii) the duration of the liabilities.

As at 31 December 2021 and 2020, the sensitivity analysis to a 0.25% change in the assumptions rate used and one year in the mortality table results in the following changes in the current value of liabilities determined for past services:

(in thousands of Euros)

Assumptions	Change in the amount of liabilities due to the change:			
	31.12.2021		31.12.2020	
	of +0.25% in the rate used	of -0.25% in the rate used	of +0.25% in the rate used	of -0.25% in the rate used
Discount rate	(73 171)	77 795	(73 282)	78 127
Salary increase rate	13 507	(13 009)	26 643	(16 935)
Pension increase rate	68 855	(64 469)	57 714	(52 943)
	in +1 year	in -1 year	in +1 year	in -1 year
Mortality table	(68 096)	68 413	(70 811)	71 808

The evolution of actuarial deviations on the balance sheet can be analyzed as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Accumulated actuarial losses recognized in other comprehensive income at the beginning of the exercise	**723 723**	**599 454**
Actuarial (gains) / losses in the exercise:		
- Changes in assumptions		
- Financial assumptions	10 612	101 787
- Plan assets return (excluding net of interests)	62 674	23 225
Other	2 043	(743)
Accumulated actuarial losses recognized in other comprehensive income at the end of the exercise	**799 052**	**723 723**

The costs of retirement pensions and health benefits for the years ended 31 December 2021 and 2020 can be analyzed as follows:

(in thousand of Euros)

	31.12.2021	31.12.2020
Current service cost	434	425
Net interest	2 908	3 979
Early retirements	512	1 310
Post-employment benefits costs	**3 854**	**5 714**

The evolution of net assets / (liabilities) on the balance sheet can be analyzed in the years ended 31 December 2021 and 2020 as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
At the beginning of the exercise	**(27 052)**	**(153 073)**
Cost for exercise	(3 854)	(5 714)
Actuarial gains / (losses) recognized in other comprehensive income	(75 329)	(124 269)
Contributions made in the exercise	86 708	269 419
Undivided transfer and reduction of liabilities	-	19 156
Social Security and clause 98	37 187	-
Other	(38 920)	(32 571)
At the end of the exercise	**(21 260)**	**(27 052)**

In 2021, the value of early retirements amounted to Euro 39.1 million (31 December 2020: Euro 32.9 million), of which Euro 38.6 million are part of the Group's restructuring process (31 December 2020: Euro 31.6 million) and as such, they were recognized against the use of the provision for restructuring (see Note 34). These amounts are considered in Other in the previous table.

The summary of the last five years of the fund's liabilities and the funds balances, as well as experience gains and losses, is analyzed as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020	31.12.2019	31.12.2018	31.12.2017
Retirement pension liabilities	(1 929 188)	(1 934 668)	(1 848 930)	(1 675 608)	(1 663 489)
Funds balance	1 907 928	1 907 616	1 695 857	1 648 168	1 648 405
(Under) / overfunding of liabilities	**(21 260)**	**(27 052)**	**(153 073)**	**(27 440)**	**(15 084)**
(Gains) / losses on experience adjustments in retirement pension liabilities	46 984	50 737	64 098	17 839	15 263
(Gains) / losses on experience adjustments in plan assets	15 690	(27 512)	(82 287)	53 917	(91 900)

The average duration of defined benefit plan liabilities is approximately 16 years (31 December 2020: approximately 16 years).

Career bonuses

As at 31 December 2021, the liabilities assumed by the Group amounted to Euro 7,467 thousand, corresponding to the liabilities for past services subjacent to the career bonuses, as described in Note 7.27 – Employee benefits (31 December 2020: Euro 7 591 thousand) (see Note 33).

As at 31 December 2021, the costs recognized with career bonuses were Euro 539 thousand (31 December 2020: Euro 951 thousand) (see Note 17).

NOTE 18 – OTHER ADMINISTRATIVE EXPENSES

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Rentals	3 886	2 800
Advertising	6 345	6 739
Communication	10 954	12 113
Maintenance and repairs expenses	8 311	8 766
Travelling and representation	1 531	1 386
Transportation of valuables	3 323	4 584
Insurance	5 362	3 123
IT services	39 381	45 610
Independent work	1 735	2 569
Temporary work	915	1 322
Electronic payment systems	11 023	11 625
Legal costs	3 533	4 938
Consultancy and audit fees	22 284	24 688
Water, energy and fuel	2 988	3 185
Consumables	1 409	1 487
Other costs	18 118	18 228
	141 098	**153 163**

The caption Other costs includes, amongst others, specialised service costs incurred with security and surveillance, information services, training and sundry external supplies.

As at 31 December 2021, rental costs includes an amount of Euro 582 thousand related to short-term operating lease contracts (31 December 2020: Euro 196 thousand), as described in note 7.24.

The fees invoiced during the years 2021 and 2020 by the Statutory Audit Firm, according to that laid down in article 508-F of the Portuguese Companies Code (*Código das Sociedades Comerciais*), have the following:

(in thousands of Euros)

	31.12.2021	31.12.2020
Statutory audit of annual accounts	1 962	2 307
Other reliability assurance services	1 392	802
Total value of billable services	**3 354**	**3 109**

NOTE 19 – CONTRIBUTIONS TO RESOLUTION FUNDS AND DEPOSIT GUARANTEE SCHEMES

This caption on 31 December 2021 and 2020 is analyzed as follows:

(In thousands of Euros)

	31.12.2021	31.12.2020
Contribution to the Fundo Único de Resolução	25 341	22 266
Contribution to the Fundo de Resolução Nacional	15 150	12 743
Contribution to the Fundo de Garantia de Depósitos	44	39
	40 535	**35 048**

NOTE 20 – IMPAIRMENT

(in thousands of Euros)

	31.12.2021			31.12.2020		
	Charges	**Reversals**	**Total**	**Charges**	**Reversals**	**Total**
Provisions or reversal of provisions (see Note 34)						
Provisions for guarantees	18 764	(31 517)	(12 753)	44 897	(29 457)	15 440
Provisions for commitments	10 768	(7 855)	2 913	12 189	(5 513)	6 676
Other provisions	159 400	(21 725)	137 675	213 441	(49 134)	164 307
	188 932	**(61 097)**	**127 835**	**270 527**	**(84 104)**	**186 423**
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss (see Note 24)						
Securities at fair value through equity	1 302	(928)	374	3 554	(5 080)	(1 526)
Securities at amortised cost	1 215 760	(1 168 355)	47 405	738 568	(696 043)	42 525
Loans and advances to banks	135 814	(134 065)	1 749	320 533	(130 904)	189 629
Loans and advances to customers	301 426	(152 051)	149 375	808 179	(283 737)	524 442
	1 654 302	**(1 455 399)**	**198 903**	**1 870 834**	**(1 115 764)**	**755 070**
Impairment or reversal of impairment of investment in subsidiaries, joint ventures and associates (see Note 26)	**678**	**(993)**	**(315)**	**5 142**	**(950)**	**4 192**
Impairment or reversal of impairment on non-financial assets						
Non-current assets and disposal groups classified as held for sale (see Note 32)	10 182	(520)	9 662	177 769	-	177 769
Tangible fixed assets (see Note 27)	3 484	(5 167)	(1 683)	3 334	-	3 334
Intangible fixed assets (see Note 29)	-	-	-	-	-	-
Other assets (see Note 31)	34 694	(16 359)	18 335	78 613	(13 938)	64 675
	48 360	**(22 046)**	**26 314**	**259 716**	**(13 938)**	**245 778**
	1 892 272	**(1 539 535)**	**352 737**	**2 406 219**	**(1 214 756)**	**1 191 463**

NOTE 21 – EARNINGS PER SHARE

Basic earnings per share

The basic earnings per share are calculated dividing the net profit attributable to the shareholders of the Bank by the weighted average number of ordinary shares in circulation during the financial year.

(In thousands of Euros)

	31.12.2021	31.12.2020
Net consolidated profit / (loss) attributable to shareholder of the Bank	**184 504**	**(1 329 317)**
Weighted average number of common shares outstanding (thousands)	9 800 000	9 800 000
Basic earnings per share attributable to shareholders of NOVO BANCO (in Euros)	**0.02**	**(0.14)**
Basic earnings per share from continuing activities attributable to shareholders of NOVO BANCO (in Euros)	**0.02**	**(0.13)**

Diluted earnings per share

The diluted earnings per share are calculated considering the net profit attributable to the shareholders of the Bank and the weighted average number of ordinary shares in circulation, adjusted for the effects of all potential dilutive ordinary shares.

The diluted earnings per share do not differ from the basic earnings per share, since there are no dilutive effects.

NOTE 22 – CASH, CASH BALANCES AT CENTRAL BANKS AND OTHER DEMAND DEPOSITS

As at 31 December 2021 and 31 December 2020, this caption is analysed as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Cash	**151 699**	**149 205**
Demand deposits with Central Banks		
Bank of Portugal	5 261 912	2 289 339
Other Central Banks	2 717	3 458
	5 264 629	**2 292 797**
Deposits in other domestic credit institutions		
Repayable on demand	85 433	19 565
Uncollected checks	163 138	51 590
	248 571	**71 155**
Deposits with banks abroad		
Repayable on demand	162 632	143 614
Other deposits	44 007	38 688
	206 639	**182 302**
	5 871 538	**2 695 459**

The caption Demand Deposits with Bank of Portugal includes mandatory deposits to comply with the minimum legal cash reserve requirements in an amount of Euro 264.3 million (31 December 2020: Euro 262.2 million), which aim to satisfy the legal requirements regarding the constitution of minimum cash balances. According to the European Central Bank Regulation (EU) No. 1358/2011, of 14 December 2011, minimum cash requirements of demand deposits with Bank of Portugal are interest-bearing and correspond to 1% of the deposits and debt certificates maturing in less than 2 years, after excluding from these the deposits of institutions subject to the European System of Central Banks minimum reserve requirements. As at 31 December 2021 and 2020, the average interest rate on these deposits was null.

Compliance with minimum cash requirements, for a given observation period, is monitored taking into account the average amount of the deposits with Bank of Portugal over said period. The balance of the account with Bank of Portugal as at 31 December 2021 was included in the observation period running from 22 December 2021 to 08 February 2022.

Checks to be collected on credit institutions at home and abroad were sent for collection within the first business days following the reference dates.

NOTE 23 – FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

As at 31 December 2021 and 2020, this caption is analysed as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Financial assets held for trading		
Securities		
Bonds and other fixed income securities		
Issued by government and public entities	114 465	267 016
	114 465	**267 016**
Derivatives		
Derivatives held for trading with positive fair value	263 199	388 257
	263 199	**388 257**
	377 664	**655 273**
Financial liabilities held for trading		
Derivatives		
Derivatives held for trading with negative fair value	306 054	554 791
	306 054	**554 791**

Securities held for trading

In accordance with the accounting policy described in Note 7.10.5, securities held for trading are those acquired to be traded in the short-term regardless of their maturity.

As of 31 December 2021, and 2020, the schedule of securities held for trading by maturity is as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
1 to 5 years	-	3 734
More than 5 years	114 465	263 282
	114 465	**267 016**

A breakdown of the securities held for trading, by fair value hierarchy, is presented in Note 42.

Derivatives

As at 31 December 2021 and 31 December 2020, this caption is analysed as follows:

(in thousands of Euros)

	31.12.2021			31.12.2020		
	Notional	Fair Value		Notional	Fair Value	
		Assets	Liabilities		Assets	Liabilities
Trading derivatives						
Exchange rate contracts						
Forward						
- buy	587 774	2 704	7 107	622 307	23 668	7 956
- sell	591 858			605 890		
Currency Swaps						
- buy	451 112	633	1 934	967 872	1 431	5 468
- sell	452 353			968 543		
Currency Interest Rate Swaps						
- buy	21 083	20 024	20 103	21 390	21 363	21 363
- sell	21 083			21 390		
Currency Options						
- buy	304 349	5 766	5 766	168 095	10 743	10 706
- sell	304 349			167 870		
		29 127	**34 910**		**57 205**	**45 493**
Interest rate contracts						
Interest Rate Swaps						
- buy	5 988 949	224 317	265 143	7 138 184	318 578	499 782
- sell	5 988 949			7 139 186		
Swaption - Interest Rate Options						
- buy	86 436	869	2 819	89 767	1 084	3 961
- sell	166 554			165 221		
		225 186	**267 962**		**319 662**	**503 743**
Equity / Index contracts						
Equity / Index Swaps						
- buy	-	-	-	30 467	2 337	2 204
- sell	-			30 467		
Equity / Index Options						
- buy	526 502	8 190	2 608	663 491	9 053	3 335
- sell	526 498			685 480		
		8 190	**2 608**		**11 390**	**5 539**
Credit default contracts						
Credit Default Swaps						
- buy	-	-	-	2 399	-	16
- sell	-			2 399		
		-	**-**		**-**	**16**
Commodities Contracts						
Commodities Swaps						
- buy	29 633	696	574	-	-	-
- sell	29 633			-		
		696	**574**		**-**	**-**
		263 199	**306 054**		**388 257**	**554 791**

Fair value option derivatives include instruments designed to manage the risk associated with certain financial assets and liabilities designated at fair value through profit or loss, in accordance with the accounting policy described in Notes 7.10.6 and 7.10.7, and which the Group has not designated for hedge accounting.

In the financial year of 2021, the Group recognized a loss of Euro 454 thousand related to the CVA of derivative instruments (31 December 2020: loss of Euro 291 thousand). The way of determining the CVA is explained in Note 42.

As at 31 December 2021 and 2020, the analysis of the derivatives held for trading by maturity period is as follows:

(in thousands of Euros)

	31.12.2021			31.12.2020		
	Notional		Fair Value (net)	Notional		Fair Value (net)
	Assets	Liabilities		Assets	Liabilities	
Trading Derivatives						
Up to 3 months	1 137 915	1 142 432	(6 380)	1 597 161	1 597 477	(81)
From 3 months to 1 year	654 256	654 868	5 224	822 432	805 003	8 725
From 1 to 5 years	1 633 635	1 640 297	2 778	2 329 447	2 349 045	(23 606)
More than 5 years	4 570 032	4 643 680	(44 477)	4 954 932	5 034 921	(151 572)
	7 995 838	**8 081 277**	**(42 855)**	**9 703 972**	**9 786 446**	**(166 534)**

NOTE 24 – FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS, AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME AND AT AMORTISED COST

As at 31 December 2021 and 2020, these captions are analysed as follows:

(in thousands of Euros)

	31.12.2021				
	Mandatorily at fair value through profit and loss	Fair value through other comprehensive income	Amortised cost	Fair value changes *	Total
Securities	799 592	7 220 996	2 338 697	(3 136)	10 356 149
Loans and advances to banks	-	-	50 466	-	50 466
Loans and advances to customers	-	-	23 650 739	33 797	23 684 536
	799 592	**7 220 996**	**26 039 902**	**30 661**	**34 091 151**

* Fair value changes of the elements covered by the interest rate hedge portfolio (see Note 25)

(in thousands of Euros)

	31.12.2020				
	Mandatorily at fair value through profit and loss	Fair value through other comprehensive income	Amortised cost	Fair value changes *	Total
Securities	960 962	7 907 587	2 229 947	1 129	11 099 625
Loans and advances to banks	-	-	113 795	-	113 795
Loans and advances to customers	-	-	23 554 304	62 730	23 617 034
	960 962	**7 907 587**	**25 898 046**	**63 859**	**34 830 454**

* Fair value changes of the elements covered by the interest rate hedge portfolio (see Note 25)

Securities

As at 31 December 2021 and 2020, the detail of securities portfolio is as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Securities mandatorily at fair value through profit or loss		
Bonds and other fixed income securities		
From other issuers	54 960	160 184
Shares	427 886	406 104
Other variable income securities	316 746	394 674
	799 592	**960 962**
Securities at fair value through other comprehensive income		
Bonds and other fixed income securities		
From public issuers	5 761 717	6 490 076
From other issuers	1 398 899	1 352 759
Shares	60 380	64 752
	7 220 996	**7 907 587**
Securities at amortised cost		
Bonds and other fixed income securities		
From public issuers	377 335	421 249
From other issuers	2 208 359	2 009 935
Impairment	(246 997)	(201 237)
	2 338 697	**2 229 947**
Value adjustments for interest rate risk hedging (see Note 25)	(3 136)	1 129
	10 356 149	**11 099 625**

Other variable income securities mandatorily accounted at fair value through profit or loss include the participation units held by the Group in Restructuring Funds, which are accounted for in accordance with the accounting policy described in Note 7.10.4, based on the net book value disclosed by the Management Companies, which may be adjusted according to information, analyzes or independent evaluations deemed necessary to determine its fair value, in response to guidelines from the European Central Bank.

By the end of 2020, novobanco completed the independent assessment of the restructuring funds. These funds are "level 3" assets in accordance with the fair value hierarchy of IFRS 13 (quotations provided by third parties whose parameters used are not observable in the market), and novobanco requested an independent evaluation from an international consulting company in articulation with real estate consultancy companies. This work resulted in a market value of Euro 498.8 million for the total investment held in these assets, which led to the recording of a loss of Euro -300.2 million in the year 2020 recorded under the heading of gains or losses with financial assets mandatorily accounted for at fair value through profit or loss (see Note 13). This assessment included the establishment of assumptions for the valuation of assets included in the funds, a discount at the level of the fund based on parameters equivalent to quoted funds and an appreciation of the potential evolution of the fund. (see Note 42)

As at 31 December 2021 and 2020, the detail of the fair value securities through other comprehensive income is as follows:

(in thousands of Euros)

	Cost [1]	Fair value reserve		Book value	Impairment reserves
		Positive	Negative		
Bonds and other fixed income securities					
From public issuers	**5 560 962**	**205 567**	**(4 812)**	**5 761 717**	**(3 043)**
Residents	2 478 402	87 103	(918)	2 564 587	(1 511)
Non residents	3 082 560	118 464	(3 894)	3 197 130	(1 532)
From other issuers	**1 374 554**	**30 008**	**(5 663)**	**1 398 899**	**(673)**
Residents	29 609	63	(2 335)	27 337	(3)
Non residents	1 344 945	29 945	(3 328)	1 371 562	(670)
Shares	**442 843**	**15 963**	**(398 426)**	**60 380**	**-**
Residents	344 174	14 633	(310 732)	48 075	-
Non residents	98 669	1 330	(87 694)	12 305	-
Other securities with variable income	**3**	**-**	**(3)**	**-**	**-**
Residents	3	-	(3)	-	-
Balance as at 31 December 2021	**7 378 362**	**251 538**	**(408 904)**	**7 220 996**	**(3 716)**

(in thousands of Euros)

	Cost [1]	Fair value reserve		Book value	Impairment reserves
		Positive	Negative		
Bonds and other fixed income securities					
From public issuers	**6 130 285**	**360 033**	**(242)**	**6 490 076**	**(3 125)**
Residents	2 650 953	129 520	-	2 780 473	(1 435)
Non residents	3 479 332	230 513	(242)	3 709 603	(1 690)
From other issuers	**1 286 344**	**68 749**	**(2 334)**	**1 352 759**	**(565)**
Residents	29 605	107	(2 334)	27 378	(3)
Non residents	1 256 739	68 642	-	1 325 381	(562)
Shares	**463 232**	**18 163**	**(416 643)**	**64 752**	**-**
Residents	359 127	15 396	(319 824)	54 699	-
Non residents	104 105	2 767	(96 819)	10 053	-
Other securities with variable income	**2**	**-**	**(2)**	**-**	**-**
Residents	2	-	(2)	-	-
Saldo a 31 de dezembro de 2020	**7 879 863**	**446 945**	**(419 221)**	**7 907 587**	**(3 690)**

(1) Aquisition cost referring to shares and other equity instruments and amortized cost for debt securities.

During the year 2021, the Group sold Euro 956.1 million of financial instruments classified at fair value through other comprehensive income (31 December 2020: Euro 1,323.9 million), with a gain of Euro 14.4 million (31 December 2020: gain of Euro 82.4 million), recorded in the income statement, from the sale of debt instruments and a loss of Euro 20.5 million that were transferred from revaluation reserves to sales-related reserves (31 December 2020: loss of Euro 15.0 million), from the sale of equity instruments.

The movements in the impairment reserves in fair value securities through other comprehensive income are presented as follows:

(in thousands of Euros)

	Impairment movement of securities at fair value through other comprehensive income			
	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2019	**5 556**	**-**	**-**	**5 556**
Increases due to changes in credit risk	3 516	38	-	3 554
Decreases due to changes in credit risk	(5 080)	-	-	(5 080)
Utilization during the period	(232)	(44)	-	(276)
Other movements	(70)	6	-	(64)
Balance as at 31 December 2020	**3 690**	**-**	**-**	**3 690**
Increases due to changes in credit risk	1 302	-	-	1 302
Decreases due to changes in credit risk	(928)	-	-	(928)
Utilization during the period	(384)	-	-	(384)
Other movements	36	-	-	36
Balance as at 31 December 2021	**3 716**	**-**	**-**	**3 716**

Changes in impairment losses on amortised cost securities are as follows:

(in thousands of Euros)

	Impairment movement of securities at amortised cost			
	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2019	**2 296**	**54 056**	**102 422**	**158 774**
Increases due to changes in credit risk	10 187	717 848	10 533	738 568
Decreases due to changes in credit risk	(8 816)	(683 933)	(3 294)	(696 043)
Utilization during the period	(36)	(2)	-	(38)
Other movements	294	(317)	(1)	(24)
Balance as at 31 December 2020	**3 925**	**87 652**	**109 660**	**201 237**
Increases due to changes in credit risk	9 347	1 058 301	148 112	1 215 760
Decreases due to changes in credit risk	(7 688)	(1 107 621)	(53 046)	(1 168 355)
Utilization during the period	(12)	(1)	(1 640)	(1 653)
Other movements	(101)	(48)	157	8
Balance as at 31 December 2021	**5 471**	**38 283**	**203 243**	**246 997**

In accordance with the accounting policy mentioned on Note 7.16, the Group regularly evaluate if there is any objective evidence of impairment in its securities portfolio at a fair value through other comprehensive income based on the judgement criteria mentioned on Note 8.1.

The dotation for impairment for securities during 2020 financial year include Euro 29.0 million, reflecting the update of information in IFRS 9 models, anticipating losses related to the Covid-19 pandemic.

As at 31 December 2021 and 2020, the securities portfolio, by residual maturity period, is as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Securities at fair value through profit or loss - mandatory		
Up to 3 months	41 741	75 553
From 3 months to 1 year	-	32 670
From 1 to 5 years	2 443	39 966
More than 5 years	10 776	11 995
Undetermined duration	744 632	800 778
	799 592	**960 962**
Securities at fair value through other comprehensive income		
Up to 3 months	451 416	218 275
From 3 months to 1 year	989 621	791 578
From 1 to 5 years	3 033 249	3 906 220
More than 5 years	2 686 330	2 926 762
Undetermined duration	60 380	64 752
	7 220 996	**7 907 587**
Securities at amortised cost (*)		
Up to 3 months	710 014	772 795
From 3 months to 1 year	139 547	113 105
From 1 to 5 years	478 503	267 980
More than 5 years	1 257 630	1 277 304
Undetermined duration	-	-
	2 585 694	**2 431 184**
	10 606 282	**11 299 733**

(*) Gross value before impairment

The detail of the securities portfolio by fair value hierarchy is presented in Note 42.

The portfolio securities pledged by the Group are analysed in Note 38.

Loans and advances to Banks

As at 31 December 2021 and 31 December 2020, the detail of Loans and advances to Banks is as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Loans and advances to banks in Portugal		
Very short-term placements	-	4 075
Deposits	715	4 897
Loans	44 770	30 280
Other loans and advances	3	4
	45 488	**39 256**
Loans and advances to banks abroad		
Deposits	6 089	10 532
Other loans and advances	2	279 419
	6 091	**289 951**
Outstanding applications	-	34 726
	51 579	**363 933**
Impairment losses	(1 113)	(250 138)
	50 466	**113 795**

Investments in credit institutions are all recorded in the amortised cost portfolio.

As at 31 December 2021 and 2020, the analysis of loans and advances to banks, by residual maturity is as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Up to 3 months	861	16 200
From 3 months to 1 year	6 558	4 854
From 1 to 5 years	38 193	302 182
More than 5 years	5 967	5 971
Undetermined duration (Overdue)	-	34 726
	51 579	**363 933**

Changes in impairment losses on loans and advances to banks are presented as follows:

(in thousands of Euros)

	Loans and advances to Banks			
	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2019	**318**	**76 341**	**429**	**77 088**
Increases due to changes in credit risk	536	2 457	317 540	320 533
Decreases due to changes in credit risk	(436)	(1 948)	(128 520)	(130 904)
Other movements	12	(76 848)	60 257	(16 579)
Balance as at 31 December 2020	**430**	**2**	**249 706**	**250 138**
Increases due to changes in credit risk	1 210	541	134 063	135 814
Decreases due to changes in credit risk	(1 399)	(102)	(132 564)	(134 065)
Utilization during the period	(101 282)	-	(167 728)	(269 010)
Other movements	101 258	33	(83 055)	18 236
Balance as at 31 December 2021	**217**	**474**	**422**	**1 113**

The increase of impairment for investments in credit institutions verified in 2020 results from the degradation of the credit risk of international exposures analysed on an individual basis, whose partial default situation at the end of 2020, among other signs of impairment, led to the transfer of the same to stage 3 and the constitution of additional impairments of Euro 189.6 million. During 2021 part of this exposure was settled, with the remaining exposure being restructured and subsequently derecognised, in line with the amendment made in May 2021 to the Contingent Capital Mechanism contract, which extinguished novobanco's rights and risks on this asset.

Loans and advances to customers

As at 31 December 2021 and 31 December 2020, the detail of loans and advances to customers is presented as follows:

(milhares de euros)

	31.12.2021	31.12.2020
Domestic loans and advances		
Corporate		
Current account loans	1 139 614	1 147 959
Loans	8 917 738	8 980 908
Discounted bills	76 741	81 843
Factoring	595 334	576 766
Overdrafts	13 457	7 109
Financial leases	1 245 885	1 421 599
Other loans and advances	17 814	21 077
Individuals		
Residential Mortgage loans	8 733 283	8 977 196
Consumer credit and other loans	1 193 500	1 118 813
	21 933 366	**22 333 270**
Foreign loans and advances		
Corporate		
Current account loans	66 348	851 881
Loans	1 319 819	146 986
Discounted bills	2	4
Factoring	40 519	51 483
Descobertos	54	8 321
Other loans and advances	1	1
Individuals		
Residential Mortgage loans	1 038 286	950 312
Consumer credit and other loans	190 201	186 020
	2 655 230	**2 195 008**
Overdue loans and advances and interests		
Under 90 days	20 010	15 632
Over 90 days	290 050	610 169
	310 060	**625 801**
	24 898 656	**25 154 079**
Impairment losses	**(1 247 917)**	**(1 599 775)**
	23 650 739	**23 554 304**
Fair value adjustaments of interest rate hedges (see Note 25)		
Corporate		
Loans	4 035	6 774
Individuals		
Residential Mortgage loans	29 762	55 956
	33 797	**62 730**
	23 684 536	**23 617 034**

Loans to customers are all recorded in the amortised cost portfolio.

As at 31 December 2021, the amount of loans and advances to customers (net of impairment) includes the amount of Euro 1,255.1 million (31 December 2020: Euro 1,390.3 million), related to securitization operations in which, according to the accounting policy referred to in Note 6, structured entities are consolidated by the Group (see Notes 1 and 41). The liabilities associated with these securitization operations were recognized as Debt Securities (see Note 33).

As at 31 December 2021, the caption Loans and advances to customers include Euro 6,075.1 million of mortgage loans related to the issuance of mortgage bonds (31 December 2020: Euro 6,104.8 million) (see Note 33).

As at 31 December 2021, the amount of interest and commissions recorded in the balance sheet relating to credit operations amounts to Euro 18,614 thousand (31 December 2020: Euro 25,256 thousand).

As at 31 December 2021 and 2020, the analysis of loans and advances to customers, by residual maturity, is as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Up to 3 months	1 211 004	1 049 929
From 3 months to 1 year	1 303 386	1 299 816
From 1 to 5 years	5 825 536	5 157 298
More than 5 years	16 282 467	17 083 965
Undetermined duration (Overdue)	310 060	625 801
	24 932 453	**25 216 809**

Changes in credit impairment losses are presented as follows:

(in thousands of Euros)

	Credit impairment changes			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance as at 31 December 2019	**53 945**	**139 775**	**1 658 775**	**1 852 495**
Financial assets derecognised	(2)	-	(294 005)	(294 007)
Increases due to changes in credit risk	40 289	339 145	428 745	808 179
Decreases due to changes in credit risk	(116 192)	(98 938)	(68 607)	(283 737)
Utilization during the period	(16)	(113)	(441 321)	(441 450)
Other movements	83 405	(69 864)	(55 246)	(41 705)
Balance as at 31 December 2020	**61 429**	**310 005**	**1 228 341**	**1 599 775**
Financial assets derecognised	(1 282)	(3 073)	(239 704)	(244 059)
Increases due to changes in credit risk	22 683	123 196	155 547	301 426
Decreases due to changes in credit risk	(47 899)	(57 439)	(46 713)	(152 051)
Utilization during the period	-	(194)	(267 008)	(267 202)
Other movements [(a)]	28 644	(50 301)	31 685	10 028
Balance as at 31 December 2021	**63 575**	**322 194**	**862 148**	**1 247 917**

(a) It includes Euro 58,046 thousand of impairment of credits of the Spanish Branch transferred to discontinued operations (Euro 22,427 thousand in stage 1 and Euro 35,619 thousand in stage 3).

The increase of impairment for credit risk during the year 2021 include Euro 71.8 million, reflecting the updating of the information in the IFRS 9 models, anticipating the losses related to the Covid-19 pandemic (31 December 2020: Euro 218.8 million).

Credit distribution by type of rate is as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Fixed rate	4 075 515	3 982 917
Variable rate	20 856 938	21 233 892
	24 932 453	**25 216 809**

An analysis of finance lease loans, by residual maturity period, is presented as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Gross investment in finance leases receivable		
Up to 1 year	278 587	270 188
1 to 5 years	693 762	761 487
More than 5 years	533 443	571 105
	1 505 792	1 602 780
Unrealized finance income in finance leases		
Up to 1 year	43 611	44 830
1 to 5 years	94 599	67 455
More than 5 years	91 120	32 654
	229 330	144 939
Present value of minimum lease payments receivable		
Up to 1 year	234 976	225 358
1 to 5 years	599 163	694 032
More than 5 years	442 323	538 285
	1 276 462	1 457 675
Impairment	(226 204)	(220 447)
	1 050 258	**1 237 228**

Sales of credit portfolios

2021

Sale of a non-performing loans portfolio (Project Orion)

novobanco entered into sale and purchase agreements with a consortium of funds managed by WEST INVEST UK LIMITED PARTNERSHIP and LX INVESTMENT PARTNERS III S.À.R.L. for the sale of a non-performing loans and related assets portfolio (Project Orion). The net book value of the receivables at the date of derecognition amounted to Euro 76.1 million (gross book value of Euro 162.9 million), with an impact on net income for the year 2021 of approximately Euro 1.8 million:

(in thousands of Euros)

Impact on the Income Statement	31.12.2021
Gains or losses from derecognition of financial assets and liabilities not measured at fair value through profit or loss	-10 159
Impairments or reversal of impairments of financial assets not measured at fair value through profit or loss	19 295
Provisions or reversal of provisions	-7 310
Impact on Net income	**1 826**

Sale of a non-performing loans portfolio (Project Wilkinson)

On March 5, 2021, novobanco entered into a sale and purchase agreement to sell a non-performing loans and related assets portfolio (Project Wilkinson), with a net book value of Euro 62.3 million (gross book value of Euro 210.4 million), with Burlington Loan Management, a company owned by companies affiliated to and advised by Davidson Kempner European Partners, LLP. The impact of this operation on net income for 2021 resulted in a loss of Euro 4.5 million.

(in thousands of Euros)

Impact on the Income Statement	31.12.2021
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	-1 363
Impairments or reversals of impairments on financial assets not measured at fair value through profit or loss	-3 175
Impact on Net Income	**-4 538**

2020

Sale of a non-performing loans portfolio (Project Carter)

On December 23, 2020, novobanco entered into a purchase and sale agreement for a portfolio of non-performing loans and related assets (together, the Carter Project), with a net book value of Euro 37.0 million (gross book value of Euro 82.8 million), to a company owned by affiliated companies and advised by AGG Capital Management Limited and Christofferson, Robb & Company, LLC. The impact of this operation on the net income for the year 2020 resulted in a gain of Euro 2.9 million.

(in thousands of Euros)

Impact on Income Statement	31.12.2020
Results from the sale of financial assets and liabilities not designated at fair value through profit or loss	3 337
Impairment net of reversals of financial assets not designated at fair value through profit or loss	-405
Impact on Net Income	**2 932**

NOTE 25 – DERIVATIVES – HEDGE ACCOUNTING AND FAIR VALUE CHANGES OF THE HEDGED ITEMS

At 31 December 2021 and 31 December 2020, the fair value of the hedging derivatives is analysed as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Hedging derivatives		
Assets	19 639	12 972
Liabilities	(44 460)	(72 543)
	(24 821)	**(59 571)**
Fair value component of the assets and liabilities hedged for interest rate risk		
Financial assets		
Securities (see Note 24)	(3 136)	1 129
Loans to customers (see Note 24)	33 797	62 730
	30 661	**63 859**

Changes in the fair value of the hedged assets and liabilities mentioned above and of the respective hedging derivatives are recognized in the income statement in the caption Gains and losses from hedge accounting. (see Note 13).

The Group calculates the "Credit Valuation Adjustment" (CVA) for derivative instruments in accordance with the methodology described in Note 42 - financial assets and liabilities held for trading.

As at 31 December 2021 and 2020, fair value hedging operations may be analysed as follows:

(in thousands of Euros)

31.12.2021							
Derivative	**Hedged item**	**Hedged risk**	**Notional**	**Fair value of derivatives (2)**	**Change in fair value of derivative in period**	**Fair value component of item hedged (2)**	**Change in fair value component of item hedged in exercise (2)**
Interest Rate Swap	Securities at amortized cost	Interest rate	378 000	4 184	3 675	(3 136)	(4 265)
Interest Rate Swap/ CIRS	Loans to customers	Interest and exchange rates	2 473 019	(29 005)	31 118	33 797	(28 935)
			2 851 019	**(24 821)**	**34 793**	**30 661**	**(33 200)**

(1) Attributable to hedged risk

(2) Includes accrued interest

(in thousands of Euros)

31.12.2020							
Derivative	**Hedged item**	**Hedged risk**	**Notional**	**Fair value of derivatives (2)**	**Change in fair value of derivative in period**	**Fair value component of item hedged (2)**	**Change in fair value component of item hedged in exercise (2)**
Interest Rate Swap	Securities at amortized cost	Interest rate	378 000	665	801	1 129	1 130
Interest Rate Swap/ CIRS	Loans to customers	Interest and exchange rates	3 325 224	(60 236)	(9 045)	62 730	11 416
			3 703 224	**(59 571)**	**(8 244)**	**63 859**	**12 546**

(1) Attributable to hedged risk

(2) Includes accrued interest

On 31 December 2021, the ineffective part of the fair value hedging operations, which translated into a cost of Euro 1.6 million, was recorded in the income statement (31 December 2020: profit of Euro 4.3 million). The Group periodically conducts tests of the effectiveness of existing hedging relationships.

Transactions with risk management and hedge derivatives as of 31 December 2021 and 2020, by maturity, can be analysed as follows:

(in thousands of Euros)

	31.12.2021			31.12.2020		
	Notional		Fair Value (net)	Notional		Fair Value (net)
	Buy	Sell		Buy	Sell	
Up to 3 months	65 000	65 000	(705)	-	-	-
From 3 months to 1 year	76 070	76 070	(1 212)	170 866	170 866	(912)
From 1 to 5 years	418 161	418 161	1 171	803 084	803 084	(8 747)
More than 5 years	866 278	866 279	(24 075)	877 662	877 662	(49 912)
	1 425 509	**1 425 510**	**(24 821)**	**1 851 612**	**1 851 612**	**(59 571)**

NOTE 26 – INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

Investments in subsidiaries, joint ventures and associates are presented as follows:

(in thousands of Euros)

	Cost of participation		Economic interest (b)		Gross Book Value		Impairment		Net Book Value		Profit / (losses) attributable to the Group	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020
LOCARENT	2 967	2 967	50.00%	50.00%	21 349	20 607	-	-	21 349	20 607	1 054	1 021
LINEAS - CONCESSÕES DE TRANSPORTES	146 769	146 769	40.00%	40.00%	59 737	60 200	(26 361)	(26 570)	33 376	33 630	(1 908)	4 526
EDENRED	4 984	4 984	50.00%	50.00%	2 692	2 102	-	-	2 692	2 102	904	469
UNICRE **a)**	11 497	11 497	17.50%	17.50%	27 242	28 983	-	-	27 242	28 983	3 120	4 242
ESEGUR **b)**	9 634	-	44.00%	-	13 847	-	(8 673)	-	5 174	-	98	-
Others	14 445	28 572			11 474	19 701	(6 717)	(11 393)	4 757	8 308	526	(828)
	190 296	**194 789**			**136 341**	**131 593**	**(41 751)**	**(37 963)**	**94 590**	**93 630**	**3 794**	**9 430**

a) Despite the Group's economic interest being less than 20%, this entity was included in the consolidated balance sheet using the equity method since the Group exercises significant influence over its activities.

b) Reclassified during 2021 from discontinued operations (see Note 32)

The financial information of the most relevant associated companies is presented in the following table:

(in thousands of Euros)

	Assets		Liabilities		Equity		Income		Profit / (loss) for the period	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020
LOCARENT	271 440	278 892	229 358	238 299	42 082	40 593	28 253	33 115	2 108	2 042
LINEAS - CONCESSÕES DE TRANSPORTES	226 769	239 341	138 557	154 744	88 212	84 597	1 503	19 769	(4 770)	12 333
EDENRED	84 502	78 399	72 897	67 973	11 605	10 426	11 175	7 083	1 807	938
UNICRE **a)**	376 148	376 266	220 481	210 647	155 667	165 619	142 625	148 490	17 827	24 239
ESEGUR **b)**	28 923	-	13 007	-	15 916	-	39 947	-	220	-

Note: Data adjusted for consolidation purposes

a) Despite the Group's economic interest being less than 20%, this entity was included in the consolidated balance sheet using the equity method since the Group exercises significant influence over its activities.

b) Reclassified during 2021 from discontinued operations (see Note 32)

The changes in this caption for the years ended as at 31 December 2021 and 2020, are analysed as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Balance at the beginning of the exercise	93 630	92 628
Disposals and other reimbursements (see Note 1)	(153)	-
Additional acquisitions and investments (see Note 1)	-	2 919
Share of profits / (losses) of associated companies	3 794	9 430
Impairment in associated companies	315	(4 192)
Fair value reserves of investments in associated companies	(774)	691
Dividends received	(7 499)	(1 541)
Foreign exchange differences and other **(a)**	5 277	(6 305)
Balance at the end of the exercise	**94 590**	**93 630**

(a) In the year 2021 includes EUR 4,326 thousand related to the reclassification of Ijar Leasing to discontinued operations and EUR 5,232 thousand and EUR 669 thousand related to the reclassification of ESEGUR and Multipessoal, respectively, from discontinued operations (see Note 32)

In 2021, dividend income of Euro 7,499 thousand was recorded in financial assets in investments in associates and subsidiaries, which include dividends received from Unicre in the amount of Euro 6,321 thousand, from Edenred in the amount of Euro 660 thousand (31 December 2020: Euro 1,541 thousand, which include dividends received from Locarent in the amount of Euro 958 thousand and Edenred in the amount of Euro 583 thousand).

The changes in impairment losses for investments in associates are presented as follows:

	31.12.2021	31.12.2020
Balance at the beginning of the year	**37 963**	**36 317**
Charges	678	5 142
Uses	-	(2 680)
Reversals	(993)	(950)
Foreign exchange differences [(a)]	4 103	134
Balance at the end of the year	**41 751**	**37 963**

(a) For 2021 it includes Euro 4,725 thousand impairment for Ijar Leasing transferred during the first half of 2021 to discontinued operations (see Note 32).

NOTE 27 – PROPERTY, PLANT AND EQUIPMENT

This caption as at 31 December 2021 and 31 December 2020 is analysed as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Real estate properties		
For own use	245 988	225 571
Improvement in leasehold properties	120 800	135 909
	366 788	**361 480**
Equipment		
Computer equipment	114 847	106 337
Fixtures	49 276	56 936
Furniture	54 728	52 296
Security equipment	21 775	24 248
Transport equipment	8 407	7 993
Right of use assets	583	583
Other	146	189
	249 762	**248 582**
Assets under right of use		
Real estate properties	55 993	53 082
Equipment	9 819	10 228
	65 812	**63 310**
Work in progress		
Improvements in leasehold properties	952	-
Real estate properties	9 891	148
Equipment	6	1
Others	336	1 417
	11 185	**1 566**
	693 547	**674 938**
Accumulated impairment	(13 221)	(13 943)
Accumulated depreciation	(441 381)	(473 943)
	238 945	**187 052**

The changes in this caption were as follows:

(in thousand of Euros)

	Real Estate Properties	Equipment	Right of Use Assets	Work in Progress	Total
Acquisition Cost					
Balance at 31 December 2019	**346 810**	**274 569**	**66 483**	**95**	**687 957**
Acquisitions	31 178	11 238	4 276	1 593	48 285
Disposals/write-offs	(5 090)	(10 360)	(7 449)	-	(22 899)
Transfers	(1 665)	(147)	-	(121)	(1 933)
Foreign exchange differences and other [(a)]	(9 753)	(26 718)	-	(1)	(36 472)
Balance at 31 December 2020	**361 480**	**248 582**	**63 310**	**1 566**	**674 938**
Acquisitions	37 989	24 853	2 502	16 629	81 973
Disposals/write-offs	(37 561)	(23 835)	-	-	(61 396)
Transfers [(d)]	4 881	160	-	(7 010)	(1 969)
Foreign exchange differences and other	(1)	2	-	-	1
Balance at 31 December 2021	**366 788**	**249 762**	**65 812**	**11 185**	**693 547**
Depreciation					
Balance at 31 December 2019	**228 222**	**245 967**	**14 751**	**-**	**488 940**
Depreciation	4 881	9 624	15 780	-	30 285
Disposals/write-offs	(3 103)	(9 980)	(5 825)	-	(18 908)
Transfers [(b)]	(805)	(143)	-	-	(948)
Foreign exchange differences and other [(c)]	(995)	(24 431)	-	-	(25 426)
Balance at 31 December 2020	**228 200**	**221 037**	**24 706**	**-**	**473 943**
Depreciation	5 391	10 668	11 400	-	27 459
Disposals/write-offs	(31 068)	(23 200)	(7 229)	-	(61 497)
Transfers [(d)]	(1 512)	(284)	-	-	(1 796)
Foreign exchange differences and other	3 101	171		-	3 272
Balance at 31 December 2021	**204 112**	**208 392**	**28 877**	**-**	**441 381**
Impairment					
Balance at 31 December 2019	**10 609**	**-**	**-**	**-**	**10 609**
Impairment loss	3 334	-	-	-	3 334
Balance at 31 December 2020	**13 943**	**-**	**-**	**-**	**13 943**
Impairment losses	3 484	-	-	-	3 484
Reversal of impairment losses	(5 167)	-	-	-	(5 167)
Transfers	303	-	-	-	303
Exchange variation and other movements	658	-	-	-	658
Balance at 31 December 2021	**13 221**	**-**	**-**	**-**	**13 221**
Net book value at 31 December 2021	**149 455**	**41 370**	**36 935**	**11 185**	**238 945**
Net book value at 31 December 2020	**119 337**	**27 545**	**38 604**	**1 566**	**187 052**

(a) Includes Euro 9,005 and Euro 27,118 thousand of real estate and equipment of the Spain branch transferred for discontinued activities during 2020.

(b) Includes Euro 1,951 thousand of fixed assets (property and equipment) and Euro 1,064 thousand of accumulated depreciation relating to discontinued branches that were transferred at net value to the appropriate balance sheet items.

(c) Includes Euro 2,034 and Euro 24,274 thousand of depreciation relating to real estate and equipment of the Spanish Branch transferred for discontinued activities during 2020.

(d) Includes Euro 3,471 thousand of fixed assets (property and equipment) and Euro 1,650 thousand of accumulated depreciation related to discontinued branches that were transferred at net value to the appropriate balance sheet items.

NOTE 28 – INVESTMENT PROPERTIES

The changes in Investment properties is presented as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Balance at the beginning of the exercise	**592 605**	**700 744**
Acquisitions	4 973	11 966
Disposals	(49 727)	(67 581)
Changes in fair value	31 179	(101 827)
Other [(a)]	46 157	49 303
Balance at the end of the exercise	**625 187**	**592 605**

(a) Includes EUR 37,609 thousand in 2021 and EUR 52,915 thousand in 2020 of real estate assets, previously classified in Other Assets, transferred under the Real Estate Funds reorganization process (see Note 31)

According to the accounting policy described in Note 7.19, the book value of investment properties is the fair value of the properties, as determined by a registered and independent appraiser with a recognized professional qualification and experience in the geographical location and category of the property being valued. For the purposes of determining the fair value of these assets, generally accepted criteria and methodologies are used, which integrate analyses by the income method and the market method, corresponding to level 3 of the fair value hierarchy (see Note 42). In view of the uncertainty associated with the estimated value of these assets, novobanco Group considers the impacts of the current context of the Covid-19 pandemic as the assets are subject to revaluation.

Investment properties comprise some assets held by Funds and Real Estate firms, and include commercial properties leased for revenue and properties held for valuation. Most of the lease contracts have no specific tenor, enabling the lessee to cancel it at any time. However, for a small number of these commercial properties leased to third parties there is a non-cancelling clause for approximately 10 years. Subsequent leases are negotiated with the lessee.

During 2021, the increase in the fair value of investment properties in the amount of Euro 31.2 million (31 December 2020: reduction of Euro 101.8 million) (see Note 15), and the rental income from investment properties in the amount of Euro 19.2 million (31 December 2020: Euro 19.3 million), are recognized under Other operating income and expenses.

NOTE 29 – INTANGIBLE ASSETS

This caption as at 31 December 2021 and 31 December 2020, is analysed as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Goodwill	**13 907**	**13 907**
Impairment losses	(13 907)	(13 907)
	-	-
Internally developed		
Software - Automatic data processing system	69 511	69 511
Other	1	1
Acquired from third parties		
Software - Automatic data processing system	387 358	353 678
	456 870	**423 190**
Work in progress	**13 455**	**21 439**
	470 325	**444 629**
Accumulated amortization	(402 339)	(395 796)
	67 986	**48 833**

The changes in this caption were as follows:

(in thousands of Euros)

	Goodwill	Software	Work in progress	Total
Acquisition cost				
Balance as at 31 December 2019	**13 908**	**440 946**	**17 464**	**472 318**
Acquisitions				
Acquired from third parties	-	2 730	24 136	26 866
Disposals / write-offs	-	(24)	-	(24)
Transfers	-	20 161	(20 161)	-
Foreign exchange differences and other [(a)]	(1)	(40 623)	-	(40 624)
Saldo a 31 de dezembro de 2020	**13 907**	**423 190**	**21 439**	**458 536**
Acquisitions				
Acquired from third parties	-	3 499	22 197	25 696
Transfers	-	30 181	(30 181)	-
Balance as at 31 December 2021	**13 907**	**456 870**	**13 455**	**484 232**
Amortizations				
Balance as at 31 December 2019	**-**	**432 032**	**-**	**432 032**
Amortization for the period	-	2 787	-	2 787
Disposals / write-offs	-	(20)	-	(20)
Foreign exchange differences and other	-	(39 003)	-	(39 003)
Balance as at 31 December 2020	**-**	**395 796**	**-**	**395 796**
Amortization for the period	-	6 545	-	6 545
Foreign exchange differences and other [(b)]	-	(2)	-	(2)
Balance as at 31 December 2021	**-**	**402 339**	**-**	**402 339**
Impairment				
Balance as at 31 December 2019	**13 908**	**-**	**-**	**13 908**
Foreign exchange differences and other	(1)	-	-	(1)
Balance as at 31 December 2020	**13 907**	**-**	**-**	**13 907**
Balance as at 31 December 2021	**13 907**	**-**	**-**	**13 907**
Net balance at 31 December 2021	**-**	**54 531**	**13 455**	**67 986**
Net balance at 31 December 2020	**-**	**27 394**	**21 439**	**48 833**

(a) Includes Euro 40,083 thousand of projects assigned to the Spain branch transferred to Discontinued Entities during the financial year 2020.

(b) Includes Euro 38,463 thousand of investment projects related to the Spanish Branch transferred to Discontinued Entities during the financial year 2020.

Goodwill is recognized in accordance with the accounting policy described in Note 6and can be analyzed as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Subsidiaries		
Imbassaí	13 526	13 526
GNB Concessões	381	381
	13 907	**13 907**
Impairment losses		
Imbassaí	(13 526)	(13 526)
GNB Concessões	(381)	(381)
	(13 907)	**(13 907)**
	-	**-**

NOTE 30 – INCOME TAXES

Tax assets and liabilities recognized in the balance sheet as at 31 December 2021 and 2020 can be analysed as follows:

(in thousands of Euros)

	31.12.2021		31.12.2020	
	Assets	Liabilities	Assets	Liabilities
Current tax	**35 653**	**12 262**	**610**	**9 203**
Corporate Tax recoverable / (payable)	142	12 162	144	9 129
Other	35 511	100	466	74
Deferred tax	**744 239**	**3 035**	**774 888**	**5 121**
	779 892	**15 297**	**775 498**	**14 324**

The deferred tax assets and liabilities recognized in the balance sheet as at 31 December 2021 and 2020 are as follows:

(in thousands of Euros)

	Assets		Liabilities		Net	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Financial instruments	92 300	64 322	(78 526)	(138 855)	13 774	(74 533)
Impairment losses on loans (not covered)	339 022	790 784	-	-	339 022	790 784
Impairment losses on loans (covered)	267 341	-	-	-	267 341	-
Other tangible assets	-	-	(8 029)	(8 203)	(8 029)	(8 203)
Provisions	82 240	39 136	-	-	82 240	39 136
Pensions	48 995	31 676	-	-	48 995	31 676
Long-term service bonuses	21	22	-	-	21	22
Other	124	123	(3 035)	(9 989)	(2 911)	(9 866)
Tax losses carried forward	751	751	-	-	751	751
Deferred tax asset / (liability)	**830 794**	**926 814**	**(89 590)**	**(157 047)**	**741 204**	**769 767**
Asset / liability set-off for deferred tax purposes	(86 555)	(151 926)	86 555	151 926	-	-
Net Deferred tax asset / (liability)	**744 239**	**774 888**	**(3 035)**	**(5 121)**	**741 204**	**769 767**

As of 31 December 2021, the deferred tax related to temporary differences was determined based on an aggregate rate of 31%, resulting from the sum of the general IRC rate (21%), the Municipal Surcharge of 1.5% and an average rate of State Surcharge of 8.5%.

On 4th September 2019, Law No. 98/2019 was published, which amended the IRC Code on the tax treatment of credit institutions' impairments, creating rules applicable to impairment losses recorded in the tax periods beginning before 1st January 2019, not yet accepted for tax purposes. This Law established a transition period for the aforementioned tax regime, which allows taxpayers in the five tax periods beginning on or after January 1, 2019, to continue to apply the tax regime in force before the publication of this law, except if they perform the exercise of opt in until the end of October of each tax period of the adaptation regime. Therefore, on December 31, 2021, the Group continued to apply Regulatory Decree no. 13/2018, of December 28, which aims to extend, for tax purposes, the tax framework that derives from Notice no. 3/95 of the Bank of Portugal.

The IRC payment declarations are subject to inspection and possible adjustment by the Tax Authorities for a period of four years or during the period in which it is possible to deduct tax losses or tax credits (up to a maximum of twelve years, depending on the year of determination). Thus, possible additional tax assessments may take place due essentially to different interpretations of tax legislation. However, Management believes that, in the context of the consolidated financial statements, there will be no additional charges of significant value.

As at 31 December 2021 and 2020, the Group recorded deferred tax assets associated with impairments not accepted for tax purposes for credit operations, which have already been written off, considering the expectation that these will contribute to a taxable profit in the periods taxation in which the conditions required for tax deductibility are met. As of December 31, 2021, the amounts held by the novobanco Group referring to these realities amount to approximately Euro 37 million.

The changes occurred in the deferred tax captions are as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Balance at the beginning of the exercise	769 767	892 360
Recognised in Results for the exercise	27 923	(9 721)
Recognised in Fair value reserves	60 294	(4 699)
Recognised in Other reserves	(74)	2 169
Conversion of Deferred taxes into Tax credits	(124 721)	(107 705)
Foreign exchange differences and other	8 015	(2 637)
Balance at the end of the exercise (Assets / (Liabilities))	**741 204**	**769 767**

The current and deferred taxes recognized in the income statement and in reserves, in 2021 and 2020, had the following origins:

(in thousands of Euros)

	31.12.2021		31.12.2020	
	Recognised in the income statement	**Recognised in reserves**	**Recognised in the income statement**	**Recognised in reserves**
Financial instruments	(28 322)	(60 294)	(11 350)	4 699
Impairment losses on loans and advances to customers	59 699	-	14 041	-
Other tangible assets	(174)	-	(174)	-
Provisions	(43 105)	-	9 424	-
Pensions	(17 393)	74	(2 100)	(2 169)
Long-term service bonuses	1	-	1	-
Other	1 371	-	(132)	-
Tax losses carried forward	-	-	11	-
Deferred taxes	**(27 923)**	**(60 220)**	**9 721**	**2 530**
Current taxes	12 737	-	(8 639)	-
Total tax recognised (income) / expense	**(15 186)**	**(60 220)**	**1 082**	**2 530**

The reconciliation of the corporate income tax rate, for the portion recognized in the income statement, may be analyzed as follows:

(in thousands of Euros)

	31.12.2021		31.12.2020	
	%	Amount	%	Amount
Income before tax		**177 003**		**(1 338 309)**
Tax rate of novobanco	21.0		21.0	
Income tax calculated based on the tax rate of NOVO BANCO		**37 171**		**(281 045)**
Tax-exempt dividends	(0.9)	(1 593)	0.0	(482)
Impairment on investments in subsidiaries or associated companies subject to Participation Exemption	(23.3)	(41 203)	(3.0)	40 166
Rate differential on the generation / reversal of timing differences	17.9	31 650	3.5	(46 706)
Profits / losses in units with a more favorable tax regime	0.2	326	(0.2)	2 107
Taxes of Bank Branches and tax withheld abroad	1.2	2 138	(0.2)	2 902
Impairments and provisions for loans	(30.1)	(53 201)	(11.0)	147 255
Impairment and fair value adjustments on securities	(21.3)	(37 715)	(7.8)	104 665
Provisions for other risks, costs and contingencies	(8.9)	(15 830)	(1.6)	21 988
Share of profits / (losses) of associated companies	-	-	(0.0)	61
Employees' long term benefits	(5.7)	(10 044)	(0.0)	(324)
Deffered tax assets not recognized under tax losses for the exercise	36.8	65 183	(1.2)	15 913
Contribution and Solidarity additional contribution over the Banking Sector	4.0	7 158	(0.5)	6 860
Other	0.4	774	0.9	(12 278)
Total income recognised	**(8.6)**	**(15 186)**	**(0.1)**	**1 082**

Deferred tax assets recoverability analysis

Deferred tax assets are recognized to the extent they are expected to be recovered with future taxable income. The Group has evaluated the recoverability of the deferred tax assets considering its expectations of future taxable profits until 2028. The recoverability of deferred tax assets covered by the Special Regime applicable to Deferred Tax Assets is not dependent on the generation of future taxable income.

The assessment of the recoverability of the deferred tax assets is made annually. With reference to 31 December 2021, this exercise was made based on the latest draft version of the business plan (“MTP”) for the period 2022-2024, preliminarily considered by the General Supervisory Board in December 2021 and which, upon final approval, will be submitted to the European Central Bank in the end of March 2022.

In the evaluation of the expectation of future taxable income generation in Portugal for the purposes of the above recovery exercise, the following assumptions were also considered:

- In addition to the detailed estimates up to 2024, it is assumed, thereafter an increase in pre-tax results at a rate of 2.60% from 2024;
- Commercial financial results moderate growth, offsetting the expected cost of debt issuing to meet MREL requirements, as well as the continuing development of new lines of activity and the resumption of economic activity, which is strongly affected by the current pandemic situation. The growth in economic activity should also provide a return to commission levels to values similar to previous years;
- Progressive recovery of interest rate benchmarks to positive levels;
- Operating costs reduction, based on specific cost reduction plans and the implementation of a new distribution model, reflecting the favorable effect of the decrease in the number of employees and branches and, generally, the simplification and increase in the efficiency of processes, focusing on the digital component; and
- Credit impairment charges in line with the evolution of the Group’s activity and supported by macroeconomic projections, bearing in mind, in particular, the significant effort made in the last few years in the provisioning of the loan portfolio and the progressive convergence towards gradually normalized risk costs.

The evolution of the business plan used for this exercise is strongly conditioned by the evolution of the Covid-19 pandemic situation, whose evolution is difficult to predict.

Depending on the analysis mentioned above, the amount of deferred taxes not recognized for tax losses, per year of expiry, is as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
2024-2026	313 192	468 903
2026 and following	1 163 678	1 124 790
	1 476 870	**1 593 693**

In addition, during the financial year 2020, the Group became aware of the Tax Authority's position with regards to adjustments resulting from the application of fair value to units in real estate investment funds and private equity funds. Such position implies that fair value adjustments to units of real estate investment funds and private equity funds do not contribute to the taxable profit in the respective year of booking. For the purpose of taxable income, such adjustments will only be accounted for at the moment of the respective realization, namely upon sale of the participation units or liquidation of the funds. The total amount of deferred tax assets related to these temporary differences, not recognized in the balance sheet, at December 31, 2021 amounts to Euro 333.5 million.

Special Regime applicable to Deferred Tax Assets

During 2014, novobanco adhered to the Special Regime applicable to deferred tax assets, after a favourable decision of the Shareholders General Meeting.

The Special Regime applicable to Deferred Tax Assets approved by Law No. 61/2014, of August 26, covers deferred tax assets resulting from non-deduction of expenses and negative equity changes related to impairment losses on credit and with post-employment or long-term employee benefits.

The changes to the mentioned above regime, introduced by Law No. 23/2016, of August 19, limited the temporal application of the above-mentioned negative expenses and equity variations, accounted for in the tax periods beginning on or after 1January 2016, as well as the associated deferred taxes. Thus, the deferred taxes covered by this special regime correspond only to expenses and negative equity variations calculated up to December 31 2015.

Deferred tax assets covered by the above-mentioned regime are convertible into tax credits when the taxpayer records a negative net result in the respective tax period, or in case of liquidation by voluntary dissolution or insolvency decreed by court decision.

To convert to a tax credit (other than by liquidation or insolvency), a special reserve should be created for the amount of the respective tax credit increased by 10%. The exercise of conversion rights results in the capital increase of the taxable person by incorporation of the special reserve and issuance of new common shares. This special reserve may not be distributed.

Following the determination of a negative net income for the years between 2016 and 2020, the deferred tax assets converted or estimated to be converted by reference to the deferred tax assets eligible at the balance sheet date are as follows:

(in thousands of Euros)

	2020	2019	2018	2017	2016
Tax credit	124 721	110 922	161 974	127 575	99 474

As a result of Law No. 61/2014, the amount of deferred tax assets to be converted into a tax credit and the constitution of the special reserve shall be subject to certification by a statutory auditor, as well as to confirmation by the Tax and Customs Authority, within the scope of the review procedures for the assessment of the taxable income for the relevant tax periods.

NOTE 31 – OTHER ASSETS

As at 31 December 2021 and 2020, the caption Other assets is analyzed as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Collateral deposits placed	525 229	806 215
Derivative products	*399 631*	*655 952*
Collateral CLEARNET and VISA	*33 092*	*33 092*
Collateral deposits relating to reinsurance operations	*92 457*	*117 127*
Other collateral deposits	*49*	*45*
Debtors for mortgage credit interest subsidies	12 300	6 756
Public sector	956 130	703 701
Contingent Capital Agreement	209 220	598 312
Other debtors	498 681	491 627
Income receivable	138 703	64 025
Deferred costs	48 430	52 822
Retirement pensions and health benefits (see Note 16)	1 684	-
Precious metals, numismatics, medal collection and other liquid assets	10 034	9 722
Real estate properties [a)]	589 390	770 054
Equipment [a)]	3 189	3 488
Stock exchange transactions pending settlement	-	60 917
Other assets	25 001	62 752
	3 017 991	**3 630 391**
Impairment losses		
Real estate properties [a)]	(390 762)	(481 358)
Equipment [a)]	(2 180)	(2 285)
Other debtors - Shareholder loans, supplementary capital contributions	(110 528)	(124 939)
Other	(71 971)	(77 517)
	(575 441)	**(686 099)**
	2 442 550	**2 944 292**

a) Real estate properties and equipment received in settlement of loans and discontinued

The caption Collateral deposits placed includes, amongst others, deposits made by the Group as collateral in order to celebrate certain derivative contracts on organised markets (margin accounts) and on over the counter markets (Credit Support Annex – CSA).

The CSAs take the form of collateral agreements established between two parties negotiating over-the-counter derivatives with each other, with the main objective of providing protection against credit risk, defining for that purpose rules regarding collateral. Derivative transactions are regulated by the International Swaps and Derivatives Association (ISDA) and have minimum risk margin that may change according to the ratings of the parties.

At 31 December 2021, the caption Other debtors includes, amongst others:

- Euro 2.3 million in shareholder loans and supplementary capital contributions granted to entities within the scope of the Group's venture capital business which are entirely provisioned (31 December 2020: Euro 14.7 million, entirely provisioned);
- Euro 111.6 million of shareholder loans and supplementary capital contributions resulting from the assignment of loans and advances which are entirely provisioned (31 December 2020: Euro 111.6 million, entirely provisioned),
- Euro 61.3 million receivable relation to the sale operation of non-performing loans (Project NATA II) (31 December 2020: Euro 67.0 million);
- Euro 1.3 million of receivables related to the property sale operation carried out in 2019 (called "Project Sertorius") (31 December 2020: Euro 28.8 million);
- Euro 4.4 million receivable in relation to the sale operation of non-performing loans in 2020 (denominated "Project Carter"). (December 31, 2020: Euro 27.4 million) (see Note 24);
- Euro 29.7 million of amounts receivable related to the transaction of sale of non-productive credits carried out in 2021 (denominated "Wilkinson Project") (see Note 24);
- Euro 50.3 million of receivables related to the sale of non-performing loans in 2021 (the "Orion Project") (see Note 24).

As at 31 December 2021, the caption Deferred costs includes the amount of Euro 37,440 thousand (31 December 2020: Euro 41,346 thousand) related to the difference between the nominal amount of the loans and advances granted to Group employees under the Collective Labour Agreement (ACT) for the banking sector and their respective fair value at grant date, calculated in accordance with IFRS 9. This amount is charged to the income statement under staff costs over the lower of the remaining period to the maturity of the loan granted and the estimated remaining years of service life of the employee.

Securities transactions pending settlement reflect the transactions with securities, recorded on the trade date, in accordance with the accounting policy described in Note 7.10, pending settlement.

The captions of Real estate properties and equipment relate to foreclosed assets through the recovery of loans and advances and to discontinued facilities, for which the Group has the objective of immediate sale.

The Group implemented a plan aimed at the immediate sale of all real estate property recorded in Other assets, continuing its efforts to meet the sales program established, of which we highlight the following (i) the existence of a web site specifically aimed at the sale of real estate properties; (ii) the development and participation in real estate events both in Portugal and abroad; (iii) the establishment of protocols with several real estate agents; and (iv) the regular sponsorship of auctions. Despite its intention to sell these assets, the Group regularly requests the Bank of Portugal's authorization, under article 114 of RGICSF, to extend the period the Group has to hold foreclosed assets.

During 2021, an impairment charge of Euro 16.2 million was recorded for the properties in the portfolio (31 December 2020: Euro 64.4 million). Given the uncertainty associated with the estimated value of these assets, novobanco Group considers the impacts of the current context of the Covid-19 pandemic as the assets are revalued.

During 2020, the Group started a process of reorganization of the real estate funds that are the object of consolidation, which implied the transfer of properties from Other assets to Investment properties according to the strategy defined for them. The gross value of the transferred properties amounted to Euro 118,987 thousand and the respective impairment to Euro 66,072 thousand. Since the valuation method for these properties is different, as indicated in the accounting policies (Notes 7.18 and 7.19), the change resulted in the recognition of a gain of Euro 1,805 thousand recorded in Other operating income.

As described in accounting policy 7.27, the Group evaluates at each reporting date, the recoverability of these assets and assesses for signs of impairment, with impairment losses being recognized in the income statement.

The changes occurred in impairment losses are presented as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Balance at the beginning of the exercise	**686 099**	**764 808**
Dotation for the exercise	34 694	78 613
Utilisation during the exercise	(134 726)	(34 848)
Write-back for the exercise	(16 359)	(13 938)
Foreign exchange differences and other [(a)]	5 733	(108 536)
Balance at the end of the exercise	**575 441**	**686 099**

(a) In 2020 includes Euro 66,072 thousand of impairment of assets transferred to Investment Properties during the financial year 2020 (see Note 28) and Euro 19,854 thousand of impairment of assets of the Spanish Branch transferred to discontinued operations.

The changes occurred in the real estate properties were as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Balance at the beginning of the exercise	**770 054**	**977 465**
Additions	44 662	30 691
Disposals	(170 501)	(93 936)
Other movements [(a)]	(54 825)	(144 166)
Balance at the end of the exercise	**589 390**	**770 054**

(a) Includes Euro 118,987 thousand of assets transferred to Investment Properties during the financial year 2020 and Euro 50,208 thousand transferred in 2021 (see Note 28). It also includes Euro 31,732 thousand of assets of the Spanish Branch transferred to discontinued operations in 2020.

As at 31 December 2021 and 2020, the detail of the real estate properties included in Other assets, by type of property, is as follows:

(in thousands of Euros)

	31.12.2021				
	Number of properties	Gross value	Impairment	Net book value	Fair value of assets (b)
Land					
Urban	341	83 965	42 853	41 112	38 955
Rural	91	190 648	149 359	41 289	44 214
	432	274 613	192 212	82 401	83 169
Buildings under construction					
Commercial	496	179 579	134 729	44 850	47 210
Residential	1 187	104 084	29 341	74 743	84 378
Others	151	4 277	1 184	3 093	3 129
	1 834	287 940	165 254	122 686	134 717
Others (a)	**-**	**26 837**	**33 296**	**(6 459)**	**(6 459)**
	2 266	**589 390**	**390 762**	**198 628**	**211 427**

(a) The net book value of this caption is negative due to the imputation of costs incurred with the sale of real estate properties

(b) Determined in accordance with accounting policy mentioned in Note 7.18

(in thousands of Euros)

	31.12.2020				
	Number of properties	Gross value	Impairment	Net book value	Fair value of assets (b)
Land					
Urban	520	75 122	34 055	41 067	46 030
Rural	207	195 556	145 732	49 824	58 652
	727	270 678	179 787	90 891	104 682
Buildings under construction					
Commercial	1 041	356 643	255 203	101 440	138 103
Residential	1 483	142 592	38 721	103 871	115 506
Other	-	-	-	-	-
	2 524	499 235	293 924	205 311	253 609
Other (a)	**2**	**141**	**7 647**	**(7 506)**	**(7 506)**
	3 253	**770 054**	**481 358**	**288 696**	**350 785**

(a) The net book value of this caption is negative due to the imputation of costs incurred with the sale of real estate properties

(b) Determined in accordance with accounting policy mentioned in Note 7.18

The detail of the real estate properties included in Other Assets, by ageing, is as follows:

(in thousands of Euros)

	31.12.2021				
	Up to 1 year	1 to 2.5 years	2.5 to 5 years	More than 5 years	Total net book value
Land					
Urban	15 945	145	201	24 821	41 112
Rural	13	95	14 526	26 655	41 289
	15 958	240	14 727	51 476	82 401
Buildings under construction					
Commercial	1 309	2 562	9 483	31 496	44 850
Residential	3 883	5 528	21 647	43 685	74 743
Other	6	2 509	309	269	3 093
	5 198	10 599	31 439	75 450	122 686
Other [(a)]	**5**	**(3 959)**	**-**	**(2 505)**	**(6 459)**
	21 161	**6 880**	**46 166**	**124 421**	**198 628**

(a) The net book value of this caption is negative due to the imputation of costs incurred with the sale of real estate properties

(in thousands of Euros)

	31.12.2020				
	Up to 1 year	1 to 2.5 years	2.5 to 5 years	More than 5 years	Total net book value
Land					
Urban	128	2 110	29 295	9 535	41 067
Rural	153	2 730	15 500	31 442	49 824
	281	4 840	44 795	40 977	90 891
Buildings under construction					
Commercial	10 975	20 020	23 541	46 904	101 440
Residential	7 707	16 779	28 444	50 939	103 871
	18 682	36 799	51 985	97 843	205 311
Other [(a)]	**(3 537)**	**-**	**-**	**(3 969)**	**(7 506)**
	15 426	**41 639**	**96 780**	**134 851**	**288 696**

(a) The net book value of this caption is negative due to the imputation of costs incurred with the sale of real estate properties

As at 31 December 2021, the amount related to discontinued facilities included in the caption Real estate properties amounts to Euro 9,848 thousand (31 December 2020: Euro 15,917 thousand), having the Group recorded impairment losses for these assets in the total amount of Euro 4,863 thousand (31 December 2020: Euro 8,273 thousand).

NOTE 32 – NON-CURRENT ASSETS AND DISPOSAL GROUPS FOR SALE CLASSIFIED AS HELD FOR SALE AND LIABILITIES INCLUDED IN DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE

Under IFRS 5 - Non-current assets held for sale and discontinued operations, a group of directly associated assets and liabilities are reclassified for discontinued operations if their balance sheet value is recoverable through a sale transaction, which must be ready for immediate sale.

This category includes the subsidiaries and associated companies in the Group's consolidation perimeter, but which the Bank intends to sell and are actively in the process of selling with the net value of assets and liabilities measured at the lower of book value or fair value net of costs to sell.

The breakdown of Non-current assets and liabilities held for sale and discontinued operations on 31 December 2021 and 2020, net of consolidation adjustments, is as follows:

(in thousand of Euros)

	31.12.2021		31.12.2020	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Non-current assets and liabilities disposal groups classified as held for sale				
International Investment Bank, S.A. (previous BICV)	1 300	-	1 299	-
Banco Well Link (previous NB Ásia)	2 039	-	1 883	-
Banco Delle Tre Venezie	-	-	9 633	-
Económico FI	3 060	-	3 060	-
Greendraive	1 392	563	1 887	1 969
ESEGUR	-	-	14 003	-
Multipessoal	-	-	2 687	-
novobanco - Spain Branch	-	-	1 696 245	1 993 851
NB Servicios	-	-	14 845	535
Novo Vanguarda	-	-	48	27
Ijar Leasing	9 051	-	-	-
Imbassaí	1 006	405	-	-
	17 848	**968**	**1 745 590**	**1 996 382**
Impairment losses				
novobanco - Spain Branch	-	-	(166 000)	-
Banco Delle Tre Venezie	-	-	(7 333)	-
Económico FI	(2 358)	-	(2 023)	-
Greendraive	(1 392)	-	(1 887)	-
ESEGUR	-	-	(8 829)	-
Ijar Leasing	(4 725)	-	-	-
	(8 475)	**-**	**(186 072)**	**-**
	9 373	**968**	**1 559 518**	**1 996 382**

As at 31 December 2021 and 2020, the results from discontinued operations are as follows:

(in thousand of Euros)

	31.12.2021	31.12.2020
Profit / (loss) generated by discontinued operations		
Greendraive	87	(1 694)
NOVO AF	-	1 498
GNB Seguros	-	8 057
ESEGUR	-	52
Multipessoal	-	51
novobanco - Spain Branch	8 796	(40 830)
NB Servicios	(3 588)	(479)
Novo Vanguarda	(37)	-
Imbassaí	(371)	-
	4 887	**(33 345)**

The impairment movement for non-current Assets and Liabilities for disposal classified as held for sale is as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Balance at the beginning of the exercise	186 072	8 303
Charges / (Write-backs)	9 662	177 769
Utilizations	(164 954)	-
Foreign exchange differences and other [(a)]	(22 305)	-
Balance at the end of the exercise	**8 475**	**186 072**

(a) Includes Euro 4,725 thousand of impairment of Ijar Leasing transferred from investments in associates and Euro 8,829 thousand of impairment of ESEGUR reclassified to associates (see Note 26).

During 2021, the associates ESEGUR and Multipessoal were transferred from discontinued operations to investments in associates and the stake in Banco Delle Tre Venezie was transferred to financial assets at fair value through other comprehensive income, following the sale processes were not active at year end.

Ijar Leasing

During 2021 the associated company Ijar Leasing was transferred to non-current assets held for sale as it is in the process of selling assets with the objective of their sale in the short term.

NOVO AF

At the end of 2020 the sale process of this subsidiary in Spain was concluded, and a capital gain of Euro 2.7 million was recognized.

GNB Seguros

Also, as a result of the commitments assumed between the Portuguese State and the European Commission of Competition, during the 2020 financial year the Group concluded the process of disposal of its stake in GNB Seguros (25%) to Crédit Agricole Assurances, S.A. (Crédit Agricole Group), having registered a gain of Euro 6.4 million.

Spanish Branch

Following the accounting policy followed by the Group, and in accordance with IFRS5 5 - Non-current assets held for sale and discontinued operations, during the 2020 the Group transferred its activity in Spain to the caption of Non-current assets and divestiture groups classified as held for sale, as their value is expected to be recovered through a sale transaction and it is highly probable, with the respective assets in immediate sale conditions. The determination of fair value less costs to sell, which took into account the amounts received from potential interested in partial sales of this activity, the cost of selling a selected loan portfolio, and the cost of discontinuing the remaining residual activity, resulted in a need to establish an impairment of Euro 166.0 million.

On April 2, 2021, novobanco entered into an agreement with ABANCA CORPORACIÓN BANCARIA, S.A to sell a set of assets and liabilities of the Spanish Branch, which took place on 30 November 2021 with the derecognition of the assets and liabilities sold. The assets and liabilities excluded from this transaction, of residual value, remained in the branch's balance sheet, having integrated the consolidation perimeter of novobanco, as presented below:

(in thousands of Euros)

	Disposed assets/liabilities	Assets/liabilities remaining in the Branch
Assets		
Cash, cash balances at central banks and other demand deposits	-	5 000
Financial assets at fair value through other comprehensive income	-	2 751
Financial assets at amortised cost	(462 796)	33 794
Loans and advances to banks	(462 796)	33 794
Investments in subsidiaries, joint ventures and associates	-	604
Tax assets	-	37 910
Current Tax Assets	-	11 929
Deferred Tax Assets	-	25 981
Other assets	-	9 591
Non-current assets and disposal groups classified as held for sale	(1 294 344)	-
Total Assets	**(1 757 140)**	**89 650**
Liabilities		
Deposits from banks	-	33 885
Provisions	-	6 611
Other liabilities	-	28 259
Passivos incluídos em grupos para alienação classificados como detidos para venda	(1 757 140)	-
Total Liabilities	**(1 757 140)**	**68 755**
Equity		
Other equity	-	19 804
Profit or loss attributable to Shareholders of the parent	-	1 091
Total Equity	**-**	**20 895**
Total Liabilities and Equity	**(1 757 140)**	**89 650**

The conclusion of this transaction had no impact on the income statement at the date of derecognition, since there was a provision recorded in the balance sheet for Euro 176 million (of which Euro 10 million reinforced already during 2021), which was partially used. The remaining amount of Euro 15.2 million was transferred to Provisions for other contingencies related to this transaction (advisory costs, tax contingencies and other possible claims).

As part of the aforementioned operation, the subsidiaries Novo Vanguarda and NB Servicios were liquidated, with no impact on the operating account.

NOTE 33 – FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

This caption as at 31 December 2021 and 2020 is analysed as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
	Total	Total
Deposits from banks	10 745 155	10 102 896
Due to customers	27 582 093	26 322 060
Debt securities issued, subordinated debt and liabilities associated to transferred assets	1 514 153	1 017 928
Other financial liabilities	374 593	365 883
	40 215 994	**37 808 767**

Deposits from Banks

The balance of Deposits from banks is composed, as to its nature, as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Deposits from Central Banks		
From the European System of Central Banks		
Deposits	53 126	29 030
Other funds	7 954 000	7 004 000
	8 007 126	**7 033 030**
Deposits from credit institutions		
Domestic		
Deposits	158 366	155 313
Other funds	24 523	4 788
	182 889	**160 101**
Foreign		
Deposits	455 484	651 656
Loans	531 973	596 534
Operations with repurchase agreements	1 529 847	1 625 724
Other resources	37 836	35 851
	2 555 140	**2 909 765**
	2 738 029	**3 069 866**
	10 745 155	**10 102 896**

As at 31 December 2021, the balance of the European Resources System of Central Banks caption includes Euro 7,954 million collateralized by the Group's financial assets, within the scope of the third series of long-term refinancing operations of the European Central Bank (TLTRO III) The bonus introduced by the ECB in the interest rate of these operations, in accordance with the stipulated in IAS 20 - Accounting for Government Grants and Disclosure of Government Assistance, is being deducted from the financing costs on a linear basis for accounting purposes, taking into account the Bank's expectation of complying with the requirements of eligibility criteria defined by the ECB.

Repurchase agreements operations corresponds to the sale of securities with purchasing agreement (repos), recorded in accordance with the accounting policy mentioned in Note 7.22.

The breakdown of Deposits from Central Banks and other credit institutions, by residual maturity, as of December 31, 2021 and 2020, is as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Deposits from Central Banks		
Up to 3 months	53 126	29 030
From 3 months to 1 year	1 627 000	-
From 1 to 5 years	6 327 000	7 004 000
	8 007 126	**7 033 030**
Deposits from credit institutions		
Up to 3 months	1 061 398	918 156
From 3 months to 1 year	963 050	496 630
From 1 to 5 years	181 609	1 085 594
More than 5 years	531 972	569 486
	2 738 029	**3 069 866**
	10 745 155	**10 102 896**

The analysis of Repurchase agreements operations, by residual maturity, is as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
International		
Up to 3 months	679 782	225 507
From 3 months to 1 year	850 065	350 014
From 1 to 5 years	-	1 050 203
	1 529 847	**1 625 724**

Due to customers

The balance of Deposits due to costumers is composed, as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Repayable on demand		
Demand deposits	12 858 988	11 883 026
Time deposits		
Time deposits	9 028 713	9 234 116
Other	191	251
	9 028 904	**9 234 367**
Savings accounts		
Retirement saving accounts	226 362	233 160
Other	5 200 726	4 742 284
	5 427 088	**4 975 444**
Other funds		
Other	254 062	216 598
	254 062	**216 598**
	27 582 093	**26 322 060**

As at 31 December 2021 and 2020, the caption Due to customers, by residual maturity periods, is as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Repayable on demand	**12 858 988**	**11 883 026**
Term deposits		
Up to 3 months	7 641 456	7 128 529
From 3 months to 1 year	5 722 112	5 678 797
From 1 to 5 years	1 319 466	1 591 570
More than 5 years	40 071	40 138
	14 723 105	**14 439 034**
	27 582 093	**26 322 060**

Debt Securities issued, subordinated debt and financial liabilities associated to transferred assets

This caption has the following breakdown:

(in thousands of Euros)

	31.12.2021	31.12.2020
Debt securities issued		
Euro Medium Term Notes (EMTN)	447 453	518 866
Bonds	606 855	39 377
	1 054 308	**558 243**
Subordinated debt		
Bonds	415 394	415 234
Financial liabilities associated to transferred assets		
Asset lending operations	44 451	44 451
	1 514 153	**1 017 928**

Under the Covered Bonds Program ("Programa de Emissão de Obrigações Hipotecárias"), which has a maximum amount of Euro 10,000 million, the Group issued covered bonds which, on 31 December 2021, amount to Euro 5,500 million (31 December 2020: Euro 5,500 million), being these covered bonds totally repurchased by the Group. The main characteristics of the outstanding issues as at 31 December 2021 and 2020 are as follows:

(in thousands of Euros)

31.12.2021									
Designation	Nominal value (in thousands of Euros)	Carrying book value (in thousands of Euros)	Issue date	Maturity date	Interest payment	Interest Rate	Market	Rating	
								Moody's	DBRS
NB 2015 SR.1	1 000 000	-	07/10/2015	07/10/2021	Trimestral	Euribor 3 Months + 0.25%	XDUB	A2	A
NB 2015 SR.2	1 000 000	-	07/10/2015	07/10/2024	Trimestral	Euribor 3 Months + 0.25%	XDUB	A2	A
NB 2015 SR.3	1 000 000	-	07/10/2015	07/10/2020	Trimestral	Euribor 3 Months + 0.25%	XDUB	A2	A
NB 2015 SR.4	700 000	-	07/10/2015	07/10/2022	Trimestral	Euribor 3 Months + 0.25%	XDUB	A2	A
NB 2015 SR.5	500 000	-	22/12/2016	22/12/2023	Trimestral	Euribor 3 Months + 0.25%	XDUB	A2	A
NB 2019 SR.6	750 000	-	10/12/2019	10/06/2023	Trimestral	Euribor 3 Months + 0.25%	XMSM	A2	A
NB 2019 SR.7	550 000	-	10/12/2019	10/12/2024	Trimestral	Euribor 3 Months + 0.25%	XMSM	A2	A
	5 500 000	**-**							

(in thousands of Euros)

31.12.2020									
Designation	Nominal value (in thousands of Euros)	Carrying book value (in thousands of Euros)	Issue date	Maturity date	Interest payment	Interest Rate	Market	Rating	
								Moody's	DBRS
NB 2015 SR.1	1 000 000	-	07/10/2015	07/10/2021	Trimestral	Euribor 3 Months + 0.25%	XDUB	A2	A
NB 2015 SR.2	1 000 000	-	07/10/2015	07/10/2024	Trimestral	Euribor 3 Months + 0.25%	XDUB	A2	A
NB 2015 SR.3	1 000 000	-	07/10/2015	07/10/2020	Trimestral	Euribor 3 Months + 0.25%	XDUB	A2	A
NB 2015 SR.4	700 000	-	07/10/2015	07/10/2022	Trimestral	Euribor 3 Months + 0.25%	XDUB	A2	A
NB 2015 SR.5	500 000	-	22/12/2016	22/12/2023	Trimestral	Euribor 3 Months + 0.25%	XDUB	A2	A
NB 2019 SR.6	750 000	-	10/12/2019	10/06/2023	Trimestral	Euribor 3 Months + 0.25%	XMSM	A2	A
NB 2019 SR.7	550 000	-	10/12/2019	10/12/2024	Trimestral	Euribor 3 Months + 0.25%	XMSM	A2	A
	5 500 000	**-**							

These covered bonds are guaranteed by a cover asset pool, comprising mortgage and other assets, segregated in novobanco Group's accounts as autonomous patrimony and over which the holders of the relevant covered debt securities have a special creditor privilege. The conditions of the covered debt securities issues are framed in Decree-Law No. 59/2006, and in Notices No. 5, 6 and 8 and Instruction nº 13/2006 of Bank of Portugal. As at 31 December 2021, the assets that collateralize these covered debt securities amount to Euro 6,075.1 million (31 December 2020: Euro 6,104.8 million) (see Note 24).

The changes in the financial years of 2021 and 2020 in debt securities issued, subordinated debt and financial liabilities associated to transferred assets was as follows:

(milhares de euros)

	Balance as at 31.12.2020	Issues	Redemptions [b)]	LME	Net purchases	Other movements [a)]	Balance as at 31.12.2021
Debt securities issued							
Euro Medium Term Notes (EMTN)	518 866	-	(1 623)	(81 124)	(4 097)	15 431	447 453
Certificates of Deposit	-	-	-		-	-	-
Bonds	39 377	580 000	(6 110)	-	(5 000)	(1 412)	606 855
Mortgage Bonds	-	-	-	-	-	-	-
Other responsibilities	-	-	-		-	-	-
	558 243	580 000	(7 733)	(81 124)	(9 097)	14 019	1 054 308
Subordinated debt							
Bonds	415 234	-	-	-	-	160	415 394
Financial liabilities associated to transferred assets							
Asset lending operations	44 451	-	-	-	-	-	44 451
	1 017 928	**580 000**	**(7 733)**	**(81 124)**	**(9 097)**	**14 179**	**1 514 153**

a) Other movements include accrued interest, corrections for hedging operations, corrections of fair value and exchange rate changes.

b) During 2021, the total EMTN 114 issue of NB Finance in the amount of EUR 1,623m and the Class A issue of Lusitano Mortgage nr 6 in the amount of EUR 6,110m were repaid in advance.

(in thousands of Euros)

	Balance as at 31.12.2019	Issues	Redemptions	LME	Net purchases	Other movements a)	Balance as at 31.12.2020
Debt securities issued							
Euro Medium Term Notes (EMTN)	661 849	-	-	(155 869)	(570)	13 456	518 866
Bonds	45 855	-	(6 476)	-	-	(2)	39 377
	707 704	-	(6 476)	(155 869)	(570)	13 454	558 243
Subordinated debt							
Bonds	415 069	-	-	-	-	165	415 234
Financial liabilities associated to transferred assets							
Asset lending operations	44 450	-	-	-	-	1	44 451
	1 167 223	**-**	**(6 476)**	**(155 869)**	**(570)**	**13 619**	**1 017 928**

a) Other movements include accrued interest, corrections for hedging operations, corrections of fair value and exchange rate changes.

Liability Management Exercise (LME)

On July 30, 2021, following a voluntary tender offer (Tender Offer and Solicitation Memorandum), EMTN (i) issued by the Luxembourg branch, with a total nominal value of Euro 84.3 million (representing 31.9% of the total nominal amount issued), and (ii) issued by the subsidiary NB Finance with a total nominal value of Euro 0.1 million (representing 4.8% of the total nominal amount issued). This operation resulted in a loss of Euro 73,480 thousand.

As at 10 December 2020, following an early redemption offer, the EMTN issued by the subsidiary NB Finance with a total nominal amount of Euro 440.8 million (out of a total amount of Euro 453.3 million). This operation resulted in a loss in the amount of Euro 26,980 thousand.

The main characteristics of these liabilities, as at 31 December 2021 and 2020, are as follows:

(in thousands of Euros)

			31.12.2021						
Entity	ISIN	Description	Currency	Issue date	Unit Price (€)	Carrying Book value	Maturity	Interest rate	Market
Bonds									
Lusitano Mortgage nº 6	XS0312981649	Lusitano Mortgage nr 6- Classe A	EUR	2007	0.20	31 767	2025 a)	Euribor 3M + 0.40%	XDUB
Lusitano Mortgage nº 6	XS0312982290	Lusitano Mortgage nr 6- Classe B	EUR	2007	1.00	1 500	2035 a)	Euribor 3M + 0.60%	XDUB
novobanco	PTNOBIOM0014	NB 3.5% 23/07/24 OBRG.	EUR	2021	100.00	303 571	2024	Fixed rate 3.5%	XDUB
novobanco	PTNOBJOM0005	NB 4.25% 09/23 OBRG.	EUR	2021	100.00	270 017	2022 a)	Euribor 3M + 4.25%	XDUB
Euro Medium Term Notes									
novobanco Luxemburgo	XS0869315241	BES Luxembourg 3.5% 02/01/43	EUR	2013	1.00	42 807	2043	Fixed rate 3.5%	XLUX
novobanco Luxemburgo	XS0877741479	BES Luxembourg 3.5% 23/01/43	EUR	2013	1.00	98 081	2043	Fixed rate 3.5%	XLUX
novobanco Luxemburgo	XS0888530911	BES Luxembourg 3.5% 19/02/2043	EUR	2013	1.00	63 952	2043	Fixed rate 3.5%	XLUX
novobanco Luxemburgo	XS0897950878	BES Luxembourg 3.5% 18/03/2043	EUR	2013	1.00	47 063	2043	Fixed rate 3.5%	XLUX
novobanco Luxemburgo	XS0972653132	BES Luxembourg ZC	EUR	2013	1.00	33 649	2048	Zero Coupon	XLUX
novobanco Luxemburgo	XS1031115014	Banco Esp San Lux ZC 12/02/49	EUR	2014	1.00	40 947	2049	Zero Coupon	XLUX
novobanco Luxemburgo	XS1034421419	Banco Esp San Lux ZC 19/02/49	EUR	2014	1.00	11 375	2049	Zero Coupon	XLUX
novobanco Luxemburgo	XS1038896426	Banco Esp San Lux ZC 27/02/51	EUR	2014	1.00	15 602	2051	Zero Coupon	XLUX
novobanco Luxemburgo	XS1042343308	BES Luxembourg ZC 06/03/2051	EUR	2014	1.00	10 974	2051	Zero Coupon	XLUX
novobanco Luxemburgo	XS1053939978	BES Luxembourg ZC 03/04/48	EUR	2014	1.00	37 479	2048	Zero Coupon	XLUX
novobanco Luxemburgo	XS1055501974	BES Luxembourg ZC 09/04/52	EUR	2014	1.00	36 512	2052	Zero Coupon	XLUX
novobanco Luxemburgo	XS1058257905	BES Luxembourg ZC 16/04/46	EUR	2014	1.00	7 192	2046	Zero Coupon	XLUX
NB Finance	XS0439764191	EMTN 57	EUR	2009	1.00	1 820	2044	Zero Coupon	XLUX
Subordinated debt									
NOVO BANCO	PTNOBFOM0017	NB 06/07/2028	EUR	2018	100.00	415 394	2023 a)	8.50%	XDUB
						1 469 702			

a) Date of the next call option

(in thousands of Euros)

Entity	ISIN	Description	31.12.2020 Currency	Issue date	Unit Price (€)	Carrying Book value	Maturity	Interest rate	Market
Bonds									
Lusitano Mortgage nº 6	XS0312981649	Lusitano Mortgage nr 6- Classe A	EUR	2007	0.23	37 877	2031 a)	Euribor 3M + 0.40%	Ireland
Lusitano Mortgage nº 6	XS0312982290	Lusitano Mortgage nr 6- Classe B	EUR	2007	1.00	1 500	2031 a)	Euribor 3M + 0.60%	Ireland
Euro Medium Term Notes									
NB (Luxemburgo Branch)	XS0869315241	BES Luxembourg 3.5% 02/01/43	EUR	2013	1.00	42 287	2043	Fixed rate 3.5%	XLUX
NB (Luxemburgo Branch)	XS0877741479	BES Luxembourg 3.5% 23/01/43	EUR	2013	1.00	97 153	2043	Fixed rate 3.5%	XLUX
NB (Luxemburgo Branch)	XS0888530911	BES Luxembourg 3.5% 19/02/2043	EUR	2013	1.00	63 183	2043	Fixed rate 3.5%	XLUX
NB (Luxemburgo Branch)	XS0897950878	BES Luxembourg 3.5% 18/03/2043	EUR	2013	1.00	46 521	2043	Fixed rate 3.5%	XLUX
NB (Luxemburgo Branch)	XS0972653132	BES Luxembourg ZC	EUR	2013	1.00	36 398	2048	Zero Coupon	XLUX
NB (Luxemburgo Branch)	XS1031115014	Banco Esp San Lux ZC 12/02/49	EUR	2014	1.00	45 717	2049	Zero Coupon	XLUX
NB (Luxemburgo Branch)	XS1034421419	Banco Esp San Lux ZC 19/02/49	EUR	2014	1.00	40 220	2049	Zero Coupon	XLUX
NB (Luxemburgo Branch)	XS1038896426	Banco Esp San Lux ZC 27/02/51	EUR	2014	1.00	34 848	2051	Zero Coupon	XLUX
NB (Luxemburgo Branch)	XS1042343308	BES Luxembourg ZC 06/03/2051	EUR	2014	1.00	15 212	2051	Zero Coupon	XLUX
NB (Luxemburgo Branch)	XS1053939978	BES Luxembourg ZC 03/04/48	EUR	2014	1.00	43 649	2048	Zero Coupon	XLUX
NB (Luxemburgo Branch)	XS1055501974	BES Luxembourg ZC 09/04/52	EUR	2014	1.00	38 646	2052	Zero Coupon	XLUX
NB (Luxemburgo Branch)	XS1058257905	BES Luxembourg ZC 16/04/46	EUR	2014	1.00	11 477	2046	Zero Coupon	XLUX
NB Finance	XS0439764191	EMTN 57	EUR	2009	1.00	1 782	2044	Zero Coupon	XLUX
NB Finance	XS0723597398	EMTN 114	EUR	2011	1.00	1 773	2021	Fixed rate 6%	XLUX
Subordinated debt									
NOVO BANCO	PTNOBFOM0017	NB 06/07/2028	EUR	2018	100.00	415 234	2023 a)	8.5%	XDUB
						973 477			

a) Date of the next call option

The residual duration of debt securities issued and subordinated liabilities, as at 31 December 2021 and 2020, is as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Debt securities issued		
From 3 months to 1 year	270 017	-
From 1 to 5 years	335 338	1 773
More than 5 years	448 953	556 470
	1 054 308	**558 243**
Subordinated debt		
From 1 to 5 years	415 394	415 234
	415 394	**415 234**
Financial liabilities associated to transferred assets		
Undetermined maturity	44 451	44 451
	44 451	**44 451**
	1 514 153	**1 017 928**

The component of fair value attributable to the credit risk of debt issue at fair value through profit or loss, is as follows:

(in thousands Euros)

	31.12.2021	31.12.2020
Fair value attributable to credit risk at the beginning of the exercise	-	47 935
Recognized in other comprehensive income		
Changes through other comprehensive income	-	10 883
Variation due to debt repurchases	-	(58 818)
Fair value attributable to credit risk at the end of the exercise	-	-

The change in fair value attributable to changes in the credit risk of the issues is calculated using the credit spread observed in recent issues of similar debt, adjusted for subsequent changes in the credit spread of the senior debt CDS issued by Group entities. As of January 1, 2018, in accordance with IFRS 9, this liability component is reflected in Other comprehensive income. With the redemption in 2020 of the issue recorded at fair value through profit or loss, the Group no longer has associated credit risk. However, the credit risk recognized since 1 January 2018 in the amount of Euro 9,214 thousand, was fixed in the respective credit risk reserve caption, in accordance with IFRS 9 (see Note 37).

The Group did not present capital or interest defaults on its debt issued in the financial years of 2021 and 2020.

NOTE 34 – PROVISIONS

As at 31 December 2021 and 2020, the caption Provisions presents the following changes:

(in thousands of Euros)

	Restructuring provision	Provision for guarantees and commitments	Commercial Offers	Other provisions	Total
Balance as at 31 December 2019	**24 044**	**97 086**	**41 334**	**145 353**	**307 817**
Charge / (Write-back)	123 915	22 116	(629)	41 021	186 423
Utilization	(42 188)	(2 188)	(29 506)	(16 578)	(90 460)
Foreign exchange differences and other **(a)**	(8 798)	(15 028)	-	4 428	(19 398)
Balance as at 31 December 2020	**96 973**	**101 986**	**11 199**	**174 224**	**384 382**
Charge / (Write-back)	10 070	(9 840)	-	127 605	127 835
Utilization	(60 358)	-	(10 205)	(23 373)	(93 936)
Foreign exchange differences and other	1	190	-	24 362	24 553
Balance as at 31 December 2021	**46 686**	**92 336**	**994**	**302 818**	**442 834**

(a) Includes Euro 8,798 thousand of restructuring provisions and Euro 14,420 thousand of provisions for guarantees provided by the Spanish Branch transferred to discontinued operations.

In order to meet the financial needs of its customers, the Group assumes several irrevocable commitments and contingent liabilities, consisting of financial guarantees, letters of credit and other credit commitments, which may require the payment by the Group, on behalf of its customers, in the event of specific, contractually prescribed events. Although these commitments are not recorded on the balance sheet, they carry credit risk and, therefore, are part of the Group's overall risk exposure.

The changes in the caption provisions for guarantees, are detailed as follows:

(in thousands of Euros)

	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2019	**3249**	**14 098**	**76 587**	**93 934**
Increases due to changes in credit risk	1 086	20 502	23 309	44 897
Decreases due to changes in credit risk	(627)	(12 830)	(16 000)	(29 457)
Utilised	-	-	(2 188)	(2 188)
Other movements (a)	(2 392)	2 299	(14 930)	(15 023)
Balance as at 31 December 2020	**1 316**	**24 069**	**66 778**	**92 163**
Increases due to changes in credit risk	873	3 044	14 847	18 764
Decreases due to changes in credit risk	(861)	(17 833)	(12 823)	(31 517)
Other movements	135	(2 361)	2 415	189
Balance as at 31 December 2021	**1 463**	**6 919**	**71 217**	**79 599**

(a) Includes Euro 14,420 thousand of provisions for guarantees provided by the Spanish Branch transferred to discontinued operations (Euro 2,360 thousand on stage 1 and Euro 12,060 thousand euros on stage 3).

The changes in the caption provisions for commitments are detailed as follows:

(in thousands of Euros)

	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2019	**1984**	**1 168**	**-**	**3 152**
Increases due to changes in credit risk	6 617	5 572	-	12 189
Decreases due to changes in credit risk	(3 875)	(1 605)	(33)	(5 513)
Other movements	1 093	(1 131)	33	(5)
Balance as at 31 December 2020	**5819**	**4 004**	**-**	**9 823**
Increases due to changes in credit risk	1 933	6 938	1 897	10 768
Decreases due to changes in credit risk	(1 843)	(5 979)	(33)	(7 855)
Other movements	647	(734)	88	1
Balance as at 31 December 2021	**6 556**	**4 229**	**1 952**	**12 737**

The restructuring provisions were set up within the scope of the commitments assumed before the European Commission arising from the Group's sale and restructuring process. During the financial year of 2020, a provision of Euro 127.4 million was set up, and there was also a reversal of the provisions set up in 2016 and 2017 in the amount of Euro 3.4 million. During 2021, a net charge of 10.1 million euros was made and Euro 60.4 million were utilized, so that on December 31, 2021, the amount of restructuring provisions on the balance sheet is Euro 46.7 million.

Other provisions amounting to Euro 302.8 million (31 December 2020: Euro 174.2 million), are intended to cover certain identified contingencies related to the Group's activities, the most relevant being:

- Contingencies associated with ongoing tax processes. To cover for these contingencies, the Group maintains provisions of Euro 32.2 million (31 December 2020: Euro 29.2million);
- Contingencies associated with legal proceedings amounting to Euro 9.5 million (31 December 2020: Euro 11.1 million);
- Contingencies associated with sales processes in the amount of Euro 39.3 million (31 December 2020: Euro 41.1 million);
- Contingencies related to the undivided part of the Executive Committee's pension plan, in the amount of Euro 19.2 million (31 December 2020: Euro 19.2 million), transferred from the liability items net of the value of the assets of the Pension Fund (see Note 17);.
- The remaining amount, of Euro 202.6 million (31 December 2020: Euro 73.6 million), is intended to cover losses arising from the Group's activity, such as fraud, theft and robbery and lawsuits ongoing lawsuits for contingencies related to asset sale processes, among others.

The increase occurred in 2021 results from the State Budget Law for 2021 ("LOE 21"), which amended the rules of the Property Transfer Tax Code ("IMT") and the Municipal Property Tax ("IMI"), with the extension of the scope of the aggravated rate of IMI and IMT, and loss of exemptions, to real estate owned by taxpayers that are controlled, directly or indirectly, by an entity that is subject to a more favorable tax regime, included in the list approved by the Minister of Finance.

At this date is pending clarification, as per the request for binding information made to the Tax Authority, the breadth of application of these new rules in terms of subjection to novobanco.

At December 31, 2021, based on the opinions obtained from legal and tax experts, and as a result of internal evaluation, it is not considered possible, with complete assurance, to remove the doubt as to the application of the new rules referred to above, although it is admitted that there may be other interpretations since these are new rules, not yet applied, and therefore subject to interpretation. As of this date, the calculation of the application of the increased IMI rates to all the properties directly and indirectly owned by novobanco amounts to approximately Euro 115.8 million for 2021, and there is no expectation as to the date on which clarification will be obtained from the Tax Authority or other similar entity that will determine the existence or not of an effective increase in liabilities for novobanco. Accordingly, in December 2021 a provision was set up for this contingency with a more probable risk than not of an outflow of resources incorporating economic benefits, in the above-mentioned amount of Euro 115.8 million, which is included in Other provisions.

NOTE 35 – OTHER LIABILITIES

As at 31 December 2021 and 2020, the caption Other liabilities is analysed as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Public sector	38 017	34 658
Creditors for supply of goods	59 323	58 793
Other creditors	107 898	64 412
Non-controlling interests of Open Investment Funds (see Note 37)	90 181	90 206
Career bonuses (see Note 17)	7 467	7 591
Retirement pensions and health-care benefits (see Note 17)	22 944	27 052
Other accrued expenses	76 333	75 495
Deferred income	2 077	2 175
Foreign exchange transactions pending settlement	14	-
Other transactions pending settlement	39 183	57 380
	443 437	**417 762**

As at 31 December 2021, the caption Creditors for supply of goods includes Euro 38,673 thousand related to creditors of assets for right of use, under IFRS 16 (31 December 2020: Euro 39,826 thousand), whose residual maturities present the following detail:

(in thousands of Euros)

	31.12.2021	31.12.2020
Up to 3 months	234	80
From 3 months to 1 year	1 199	484
From 1 to 5 years	16 293	22 194
More than 5 years	20 947	17 068
	38 673	**39 826**

NOTE 36 – SHARE CAPITAL

Ordinary shares

As at 31 December 2021, the Bank's share capital of Euro 6,054,907,314 is represented by 9,954,907,311 registered shares with no par value and is fully subscribed and paid up by the following shareholders (December 31, 2020: share capital of Euro 5,900,000,000 represented by 9,799,999,997 registered shares):

	% Share Capital	
	31.12.2021	31.12.2020
Nani Holdings, SGPS, SA [(1)]	73.83%	75.00%
Resolution Fund [(2)]	24.61%	25.00%
Directorate General for the Treasury and Finance	1.56%	-
	100.00%	**100.00%**

[(1)] as a result of the agreements celebrated between the Resolution Fund and the shareholder Lone Star in the context of the sale of 75% of the share capital of novobanco, only the Resolution Fund will see its participation diluted with the conversion of the conversion rights, pending the delivery of the shares by the Resolution Fund to Nani Holdings on December 31, 2021. When such delivery occurs, Nani Holdings' shareholding percentage will increase to 75.00% and the Resolution Fund's to 23.44%.Nani Holdings' economic interest in the new bank remains unchanged at 75%.

[(2)] In view of the commitments assumed by the Portuguese Republic before the European Commisson, the Resolution Fund is inhibited from exercising its voting rights.

In December 2021, a capital increase of Euro 154,907 thousand was carried out through the conversion of the conversion rights (resulting from the Special Regime Applicable to Deferred Tax Assets) for the year 2015, which gave the State a 1.56% stake in the novobanco, and which resulted in the issuance of 154,907,314 new ordinary shares (Note 37).

In 2017 and following the acquisition of 75% of novobanco by Lone Star, two capital increases in the amounts of Euro 750 million and Euro 250 million, in October and December, respectively, were realised.

As mentioned in Note 30, novobanco adhered to the Special Regime applicable to Deferred Tax Assets (DTA) approved by Law No. 61/2014, of 26 August. Said regime applies to deferred tax assets related to the non-deduction, for corporate income tax purposes, of costs and negative equity changes recorded up to 31 December 2015 for impairment losses on loans and advances to customers and with employee post-employment or long-term benefits. Said regime foresees that those assets can be converted into tax credits when the taxable entity reports an annual net loss.

The conversion of the eligible deferred tax assets into tax credits was made according to the proportion of the amount of said net loss to total equity at the individual company level. A special reserve was established with an amount identical to the tax credit approved, increased by 10%. This special reserve was established using the originating reserve and is to be incorporated in the share capital.

The conversion rights are securities that entitle the State to require novobanco to increase its share capital by incorporating the amount of the special reserve and consequently issuing and delivering free of charge ordinary shares. It is estimated that the conversion rights to be issued and attributed to the State following the negative net results of the years 2015 to 2020 will give it a stake of up to approximately 16.63% of the share capital of novobanco, which will only dilute, in accordance with the sale agreement, the stake of the Resolution Fund.

For the years 2016 and 2017, the Tax Authority has already validated the tax credit, and the final amount of conversion rights attributed to the State represents an additional stake of 4.13% of the share capital of novobanco (5.69% for the years 2015 to 2017). This conversion will be exercised in accordance with the procedures and deadlines established in the legal regime. The issuer of these rights has agreed with the shareholders that clarification will be sought from the State regarding the procedure for the conversion of these rights. As soon as this clarification is received, the conversion of the rights for the 2016 and 2017 financial years will take place.

NOTE 37 – ACCUMULATED OTHER COMPREHENSIVE INCOME, RETAINED EARNINGS, OTHER RESERVES NON-CONTROLLING INTERESTS

As at 31 December 2021 and 2020, the accumulated other comprehensive income, retained earnings and other reserves present the following detail:

(in thousands of Euros)

	31.12.2021	31.12.2020
Other accumulated comprehensive income	**(1 045 489)**	**(823 420)**
Retained earnings	**(8 576 860)**	**(7 202 828)**
Other reserves	**6 501 374**	**6 570 154**
Originating reserve	1 848 691	1 976 173
Special reserve	701 136	728 561
Other reserves and Retained earnings	3 951 547	3 865 420
	(3 120 975)	**(1 456 094)**

Other accumulated comprehensive income

The movements in Other accumulated comprehensive income were as follows:

(in thousands of Euros)

	Other accumulated comprehensive income						
	Impairment reserves	Credit risk reserves	Sales reserves	Fair value reserves	Other variations of other comprehensive income	Actuarial deviations (net of taxes)	Total
Balance as at 31 December 2019	**5 547**	**(1 669)**	**(7 785)**	**(85 891)**	**(13 376)**	**(599 137)**	**(702 311)**
Actuarial deviations	-	-	-	-	-	(124 331)	(124 331)
Fair value changes, net of taxes	-	-	-	12 729	-	-	12 729
Foreign exchange differences	-	-	-	-	(1 518)	-	(1 518)
Changes in credit risk of financial liabilities at fair value, net of taxes	-	10 883	-	-	-	-	10 883
Impairment reserves of securities at fair value through other comprehensive income	(1 852)	-	-	-	-	-	(1 852)
Reserves of sales of securities at fair value through other comprehensive income	-	-	(14 972)	-	-	-	(14 972)
Other comprehensive income of associated companies	-	-	-	(2 048)	-	-	(2 048)
Balance as at 31 December 2020	**3 695**	**9 214**	**(22 757)**	**(75 210)**	**(14 894)**	**(723 468)**	**(823 420)**
Actuarial deviations	-	-	-	-	-	(75 584)	(75 584)
Fair value changes, net of taxes	-	-	-	(125 801)	-	-	(125 801)
Foreign exchange differences	-	-	-	-	95	-	95
Impairment reserves of securities at fair value through other comprehensive income	12	-	-	-	-	-	12
Reserves of sales of securities at fair value through other comprehensive income	-	-	(20 539)	-	-	-	(20 539)
Other comprehensive income of associated companies	-	-	-	(252)	-	-	(252)
Balance as at 31 December 2021	**3 707**	**9 214**	**(43 296)**	**(201 263)**	**(14 799)**	**(799 052)**	**(1 045 489)**

Fair value reserves

The fair value reserves represent the amount of the unrealised gains and losses arising from the securities portfolio classified as at a fair value through other comprehensive income, net of impairment losses. The amount of this reserve is shown net of deferred taxes and non-controlling interests.

The changes occurred in the fair value reserves, net of deferred taxes and impairment losses may be analysed as follows:

(in thousands of Euros)

	31.12.2021			31.12.2020		
	Fair value reserves			Fair value reserves		
	Financial assets at fair value through other comprehensive income	Deferred tax reserves	Total fair value reserves	Financial assets at fair value through other comprehensive income	Deferred tax reserves	Total fair value reserves
Balance at the beginning of the exercise	**28 437**	**(103 647)**	**(75 210)**	**13 057**	**(98 948)**	**(85 891)**
Changes in fair value	(200 897)	-	(200 897)	95 596	-	95 596
Foreign exchange differences	2 351	-	2 351	(4 280)	-	(4 280)
Disposals in the exercise	13 560	-	13 560	(69 652)	-	(69 652)
Impairment in the exercise	(1 361)	-	(1 361)	(6 284)	-	(6 284)
Deferred taxes recognized in the exercise in reserves	-	60 294	60 294	-	(4 699)	(4 699)
Balance at the end of the exercise	**(157 910)**	**(43 353)**	**(201 263)**	**28 437**	**(103 647)**	**(75 210)**

The fair value reserves are analysed as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Amortised cost of financial assets at fair value through other comprehensive income	7 378 362	7 879 863
Market value of financial assets at fair value through other comprehensive income	7 220 996	7 907 587
Unrealised gains / (losses) recognized in fair value reserve	(157 366)	27 724
Fair value reserves by the equity method	665	917
Fair value reserves of discontinued activities	-	1 193
Non-controlling Interests	(1 209)	(1 397)
Total fair value reserve	(157 910)	28 437
Deferred Taxes	(43 353)	(103 647)
Fair value reserve attributable to shareholders of the Bank	**(201 263)**	**(75 210)**

Originating reserve

The originating reserve results from the difference between the assets and liabilities transferred from BES to novobanco, on the terms defined in the resolution measure applied by Bank of Portugal to BES. The amount of the reserve includes the effects of Bank of Portugal's Resolution Measure ("Medida de Resolução") and those of the conclusions reached through the audit conducted by the independent auditor nominated by Bank of Portugal.

Special reserve

As mentioned in Note 30, the special reserve was created as a result of the adhesion of novobanco to the Special Regime applicable to Deferred Tax Assets approved by Law No. 61/2014, of 26 August, which implied the conversion of eligible deferred tax assets into tax credits and the simultaneous establishment of a special reserve.

Following the calculation of a negative net result in the years between 2015 and 2020, with reference to the deferred tax assets eligible at the closing date of these years, from the application of the special regime applicable to deferred tax assets, novobanco recorded a special reserve, in the same amount as the tax credit calculated, increased by 10%, which is broken down as follows:

(milhares de euros)

	31.12.2021	31.12.2020
2016 (net loss of 2015)	14 004	168 911
2017 (net loss of 2016)	109 421	109 421
2018 (net loss of 2017)	140 332	150 044
2019 (net loss of 2018)	178 171	178 171
2020 (net loss of 2019)	122 015	122 014
2021 (net loss of 2020)	137 193	-
	701 136	**728 561**

With regard to the reserve set up in 2016 (relating to the negative net income of 2015), taking into account the legal deadlines provided for in the Special Regime, in 2021 it was decided to increase the share capital by incorporation of reserves in the amount of Euro 154,907 thousand, with the remaining amount of the reserve in the amount of Euro 14,004 thousand (relating to goodwill), intended to be incorporated into a special reserve subject to the legal reserve regime under the terms of article 295 of the Commercial Companies Code.

Other reserves and retained earnings

Following the conditions agreed in the novobanco's sale process, a Contingent Capital Agreement was created. In this context, if the capital ratios fall below a certain threshold and, cumulatively, losses are recorded in a delimited asset portfolio, the Resolution Fund makes a payment corresponding to the lower of the losses recorded and the amount necessary to restore the ratios to the defined threshold, of up to a maximum of Euro 3,890 million (see Note 38 – Contingent liabilities and commitments). The capital corresponds to a previously defined asset perimeter, with an initial net book value (June 2016) of around Euro 7.9 billion. As at 31 December 2021 these assets had a net value of Euro 1.7 billion, mainly as a result of losses recorded as well as payments and recoveries (31 December 2020: net value of Euro 2.1 billion).

Taking into consideration the losses presented by novobanco at December 31, 2020, 2019, 2018 and 2017, the conditions were met that determined the payment by the Resolution Fund of Euro 429,013 thousand, Euro 1,035,016 thousand, Euro 1,149,295 thousand and Euro 791,695 thousand in 2021, 2020, 2019 and 2018, respectively.

The amount related to the Contingent Capital Agreement recorded in 2020, as receivable by the Resolution Fund (Euro 598,312 thousand), differs from the amount paid as a result of disagreements, between novobanco and the Resolution Fund, regarding (i) the provision for discontinued operations in Spain and (ii) the valuation of participation units, leading to a limitation to the immediate access to this amount, which despite being recorded as receivables, the Bank deducted, as at December 31, 2021, to the regulatory capital calculation (EUR 165,442 thousand). novobanco considers this amount to be due under the Contingent Capital Agreement and is triggering the legal and contractual mechanisms at its disposal to ensure receipt of the same (see Note 38). Additionally, the variable remuneration of the Executive Board of Directors for 2019 and 2020 (Euro 3,857 thousand) was also deducted.

In 2021 an amount receivable by the Resolution Fund of Euro 209,220 thousand was recorded in relation to the Contingent Capital Agreement, under Other Reserves and which results, on the date of each balance sheet, from losses incurred and regulatory ratios in force at the time of their determination. As a result of the above and in line with the Regulator's guidelines, at 31 December 2021, this value was also deducted from the regulatory capital calculation.

Non-controlling interests

The caption Non-controlling interests, by subsidiary, is detailed as follows:

(in thousands of Euros)

	31.12.2021			31.12.2020		
	Balance sheet	Income statement	% Non-controlling interests	Balance sheet	Income statement	% Non-controlling interests
NB Património [a)]	-	6 007	43,67%	-	(7 759)	44,17%
novobanco Açores	20 445	2 053	42,47%	18 451	1 134	42,47%
Amoreiras	9 012	(87)	4,76%	9 099	(123)	4,76%
Other	1 578	(288)		4 496	(3 326)	
	31 035	**7 685**		**32 046**	**(10 074)**	

a) Non-controlling interests relating to Open real estate investment funds are recorded as Other liabilities (see Note 33)

The changes occurred in the caption Non-controlling interests may be analysed as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Non-controlling interests at the beginning of the exercise	**32 046**	**36 624**
Changes in consolidation perimeter and control percentages	(3 288)	(1 553)
Changes in fair value reserves	142	(830)
Other	(5 550)	7 879
Net profit / (loss) for the exercise	7 685	(10 074)
Non-controlling interests at the end of the exercise	**31 035**	**32 046**

NOTE 38 – CONTINGENT LIABILITIES AND COMMITMENTS

In addition to the derivative financial instruments, the balances relating to off-balance accounts as at 31 December 2021 and 2020 are the following:

(in thousands of Euros)

	31.12.2021	31.12.2020
Contingent liabilities		
Guarantees and standby letters	2 234 243	2 826 190
Financial assets pledged as collateral	13 997 048	14 101 034
Open documentary credits	402 332	410 292
	16 666 552	**17 337 516**
Commitments		
Revocable commitments	5 298 799	6 389 435
Irrevocable commitments	546 458	631 500
	5 845 257	**7 020 935**

Guarantees and standby letters provided are banking operations that do not imply any mobilization of funds for the Group.

As at 31 December 2021, the caption financial assets pledged as collateral includes:

Em 31 de dezembro de 2021, a rubrica de ativos financeiros dados em garantia inclui:

- The market value of financial assets pledged as collateral to the European Central Bank in the scope of a liquidity facility, in the amount of Euro 13.2 billion (31 December 2020: Euro 13.1 billion);
- Securities pledged as collateral to the Portuguese Securities and Exchange Commission ("Comissão do Mercado de Valores Mobiliários" (CMVM)) in the scope of the Investors Indemnity System ("Sistema de Indemnização aos Investidores"), in the amount of Euro 9.1 million (31 December 2020: Euro 9.4 million);
- Securities pledged as collateral to the Deposits' Guarantee Fund ("Fundo de Garantia de Depósitos"), in the amount of Euro 67.5 million (31 December 2020: Euro 70.8 million);
- Securities pledged as collateral to the European Investment Bank, in the amount of Euro 651.4 million (31 December 2020: Euro 769.7 million);
- Securities delivered as collateral in connection with derivatives trading with a central counterparty in the amount of Euro 100.5 million (31 December 2020: Euro 107.0 million).

The above mentioned financial assets pledged as collateral are recorded in the various asset categories of the Group's balance sheet and may be executed in the event the Group does not fulfil its obligations under the terms and conditions of the contracts celebrated. The increase in the value of securities pledged as collateral to the European Investment Bank is related to the reinforcement of the collateral due to changes in the minimum required amounts.

Documentary credits are irrevocable commitments made by the Group, on behalf of its customers, to pay or order to pay a certain amount to a supplier of goods or services, within a determined period, upon the presentation of documentation of the expedition of the goods or rendering of the services. The condition of "irrevocable" derives from the fact that they may not be cancelled neither changed without the agreement of all involved parties.

Revocable and irrevocable commitments represent contractual agreements to extend credit to customers of the Group (e.g. undrawn credit lines), which are, generally, contracted for fixed periods of time or with other expiration conditions and, usually, require the payment of a fee. Almost all credit commitments in force require that customers continue meeting certain conditions that were verified at the time the credit was contracted.

Despite the characteristics of these contingent liabilities and commitments, these operations require a previous rigorous risk assessment of the solvency of the customer and of its business, similarly to any other commercial operation. When necessary, the Group requires the collateralisation of these transactions. Since it is expected that the majority of these operations will mature without any funds having been drawn, these amounts do not necessarily represent future cash out-flows.

Additionally, liabilities recorded in off-balance sheet items related to banking services provided are as follows:

Adicionalmente, as responsabilidades evidenciadas em contas extrapatrimoniais relacionadas com a prestação de serviços bancários são como segue:

(in thousands of Euros)

	31.12.2021	31.12.2020
Deposit and custody of securities and other items	31 739 971	35 469 555
Amounts received for subsequent collection	197 567	233 699
Securitized loans under management (servicing)	620 091	697 905
Other responsibilities related with banking services	652 518	1 519 011
	33 210 147	**37 920 170**

Pursuant to the resolution measure applied to BES by resolution of Bank of Portugal of 3 August 2014 (point 1., point b), subparagraph (vii) of Annex 2), as amended by the decision of Bank of Portugal of 11 August 2014, the "excluded liabilities" of transfer to novobanco include "any obligations, guarantees, liabilities or contingencies assumed in the commercialization, financial intermediation and distribution of debt instruments issued by entities that are part of the Espírito Santo Group (...) ".

Pursuant to point and subparagraph above and subpoint (v), liabilities excluded also include "any liabilities or contingencies, namely those arising from fraud or violation of regulatory, criminal or administrative offenses or provisions".

On December 29, 2015, Bank of Portugal adopted a new resolution on "Clarification and retransmission of responsibilities and contingencies defined as liabilities excluded in subparagraphs (v) to (vii) of paragraph 2 (b) of Annex 2 to the Resolution of Bank of Portugal of 3 August 2014 (8 pm), as amended by the Resolution of Bank of Portugal of 11 August 2014 (5 pm) ". Under the terms of this resolution, Bank of Portugal came:

i. Clarify the treatment as liabilities excluded from BES's contingent and unknown liabilities (including litigious liabilities related to pending litigation and liabilities or contingencies resulting from fraud or the violation of regulatory, criminal or administrative offenses or provisions), regardless of their nature (tax, Labour, civil or other) and whether or not they are registered in BES's accounts, under the terms of sub-paragraph (v) of paragraph (b) of paragraph 1 of Exhibit 2 of the Resolution of 3 August; and

ii. Clarify that the following BES liabilities have not been transferred from BES to novobanco:

   a. All credits related to preferred shares issued by vehicle companies established by BES and sold by BES;

   b. All credits, indemnities and expenses related to real estate assets that have been transferred to novobanco;

   c. All indemnities related to non-compliance with contracts (purchase and sale of real estate and other assets) signed and executed before 8:00 pm on August 3, 2014;

   d. All indemnities related to life insurance contracts, in which the insurer was BES - Companhia de Seguros de Vida, S.A;

   e. All credits and indemnities related to the alleged cancellation of certain loan agreement clauses in which BES was the lender;

   f. All indemnities and credits resulting from the cancellation of operations carried out by BES as a provider of financial and investment services;

   g. Any responsibility that is the subject of any of the processes described in Appendix I of said resolution.

iii. To the extent that, despite the clarifications made above, it turns out that any liabilities of BES that, under the terms of any of those paragraphs and the Resolution of August 3, were effectively transferred to novobanco legal liabilities, these liabilities will be retransmitted from novobanco to BES, with effect from 8:00 pm on August 3, 2014.

In the preparation of its consolidated financial statements for 31 December 2021 (as well as in the previous financial statements), novobanco incorporated the determinations resulting from the resolution measure, as amended, with regard to the perimeter of transfer of assets, liabilities, off-balance sheet items and assets under BES management, as well as the decisions of Bank of Portugal of 29 December 2015, in particular, regarding the clarification of the non-transmission to novobanco of contingent and unknown liabilities and clarifications relating to the liabilities contained in paragraph (ii) above, including the lawsuits listed in that resolution.

Additionally, also by resolution of Bank of Portugal of 29 December 2015, it was decided that the Resolution Fund is responsible for neutralizing, at the level of novobanco, the effects of decisions that are legally binding, outside the will of novobanco and for the which it has not contributed and that, simultaneously, translate into the materialization of responsibilities and contingencies that, according to the transfer perimeter to novobanco, as defined by Bank of Portugal, should remain within the sphere of BES or give rise to the establishment compensation in the context of the execution of annulments of decisions adopted by Bank of Portugal.

Considering that the creation of the Bank results from the application of a resolution measure to BES, which had significant impacts on the equity of third parties, and without prejudice to the decisions of Bank of Portugal of December 29, 2015, there are still relevant litigation risks , although mitigated, namely, regarding the various litigations related to the loan made by Oak Finance to BES, the commercialization by BES of debt instruments and those related to the issue of senior bonds relayed to BES, as well as the risk of non-recognition and / or application of the various decisions of Bank of Portugal by Portuguese or foreign courts (as in the case of courts in Spain) in disputes related to the perimeter of assets, liabilities, off-balance sheet items and assets under BES management transferred to novobanco. These disputes include the two lawsuits brought at the end of January 2016, before the Supreme Court of Justice of Venezuela, by the Banco de Desarrollo Económico y Social de Venezuela and the Fondo de Desarrollo Nacional against BES and novobanco, relating to the sale of debt instruments issued by entities belonging to the Espírito Santo Group, in the amount of US $ 37 million and US $ 335 million, respectively, and in which reimbursement of the amount invested is requested, plus interest, indemnity for the inflation value and costs (in the global value estimated by the respective authors of US $ 96 milion and US $ 871 million, respectively). These main actions are still pending before the Supreme Court of Justice of Venezuela.

In the preparation of novobanco ‘s individual and consolidated financial statements of 31 December 2021 (as well as in the previous financial statements), the Executive Board of Directors reflected the Resolution Measure and related decisions taken by Bank of Portugal, in particular the decisions of December 29, 2015. In this context, these financial statements, namely with regard to provisions for contingencies arising from lawsuits, reflect the exact perimeter of assets, liabilities, off-balance sheet items and assets under BES management and liabilities transferred to novobanco, as determined by Bank of Portugal and with reference to the current legal bases and the information available at the present date.

Additionally, within the scope of the novobanco sale operation, concluded on October 18, 2017, the respective contractual documents contain specific provisions that produce effects equivalent to the resolution of the Board of Directors of Bank of Portugal, of December 29, 2015, regarding the neutralization, at the level of novobanco, of the effects of unfavorable decisions that are legally binding, although, now, with contractual origin, thus maintaining the framework of contingent responsibilities of the Resolution Fund.

Relevant disputes

For the purposes of contingent liabilities, and without prejudice to the information contained in these notes to the accounts, namely with regard to the conformity of the policy of setting up provisions with the resolution measure and subsequent decisions of Bank of Portugal (and criteria for the allocation of responsibilities and contingencies arising therefrom), it is also necessary to identify the following disputes whose effects or impacts on the financial statements of novobanco GROUP are, at the present date, insusceptible to determine or quantify:

i. Legal action brought by Partran, SGPS, S.A., Massa Insolvente by Espírito Santo Financial Group, S.A. and Massa Insolvente by Espírito Santo Financial (Portugal), S.A. against novobanco and Calm Eagle Holdings, S.A.R.L. through which it is intended the declaration of nullity of the pledge constituted on the shares of Companhia de Seguros Tranquilidade, S.A. and, alternatively, the annulment of the pledge or the declaration of its ineffectiveness;

ii. Lawsuit filed by novobanco to challenge the resolution in favor of the insolvent estate of the acts of incorporation and subsequent execution of the pledge on the shares of Companhia de Seguros Tranquilidade, SA, declared by the insolvency administrator of Partran, SGPS, SA, considering that there are no grounds for the resolution of the aforementioned acts, as well as for the return of the amounts received as a price (Euro 25 million corresponding to the initial price and the respective positive adjustments) for the sale of the shares of Companhia de Seguros Tranquilidade , SA. novobanco has judicially challenged the resolution act, running the process attached to the insolvency process of Partran, SGPS, SA;

iii. Lawsuits brought after the execution of the contract for the purchase and sale of novobanco ‘s share capital, signed between the Resolution Fund and Lone Star on March 31, 2017, related to the conditions of the sale, namely the lawsuit administrative action brought by Banco Comercial Português, SA against the Resolution Fund, of which novobanco is not a party and, under which, according to the public disclosure of privileged information made by BCP on the CMVM website on September 1, 2017, the legal assessment of the contingent capitalization obligation assumed by the Resolution Fund within the scope of the Contingent Capitalization Mechanism is requested;

Resolution Fund

The Resolution Fund is a public legal person with administrative and financial autonomy, created by Decree-Law no. 31-A / 2012, of 10 February, which is governed by the RGICSF and its regulations and whose mission is provide financial support to the resolution measures applied by Bank of Portugal, as the national resolution authority, and to perform all other functions conferred by law in the scope of the execution of such measures.

The Bank, like most financial institutions operating in Portugal, is one of the institutions participating in the Resolution Fund, making contributions that result from the application of a rate defined annually by Bank of Portugal based essentially on the amount of its liabilities. As at 31 December 2021, the Group’s periodic contribution amounted to Euro 15,150 thousand (31 December 2020: Euro 12,743 thousand).

Within the scope of its responsibility as a supervisory and resolution authority, Bank of Portugal, on August 3, 2014, decided to apply a resolution measure to BES, pursuant to paragraph 5 of article 145-G of the General Regime of Institutions Credit and Financial Companies (RGICSF), which consisted of transferring most of its activity to novobanco, created especially for this purpose, with the capitalization being ensured by the Resolution Fund.

For the realization of novobanco's share capital, the Resolution Fund made available Euro 4,900 million, of which Euro 365 million corresponded to its own financial resources. A loan from a banking syndicate was also granted to the Resolution Fund, in the amount of Euro 635 million, with the participation of each credit institution being weighted according to several factors, including the respective size. The remaining amount (Euro 3,900 million) originated from a loan granted by the Portuguese State.

In December 2015, the national authorities decided to sell most of the assets and liabilities associated with the activity of Banif - Banco Internacional do Funchal, SA (BANIF) to Banco Santander Totta, SA (Santander Totta), for Euro 150 million, also within the framework of the application of a resolution measure. In the context of this resolution measure, Banif's assets identified as problematic were transferred to an asset management vehicle, created for this purpose - Oitante, S.A. This operation involved public support estimated at Euro 2,255 million, which aimed at covering future contingencies, financed at Euro 489 million by the Resolution Fund and Euro 1,766 million directly by the Portuguese State.

The situation of serious financial imbalance in which BES was in 2014 and BANIF in 2015, which justified the application of resolution measures, created uncertainties related to the risk of litigation involving the Resolution Fund, which is significant, as well as with the risk of an eventual insufficiency of resources to ensure the fulfilment of the liabilities, in particular the short-term repayment of the borrowings.

It was in this context that, in the second half of 2016, the Portuguese Government reached an agreement with the European Commission to change the financing conditions granted by the Portuguese State and by the banks participating in the Resolution Fund, in order to preserve financial stability. through the promotion of conditions that provide predictability and stability to the contributory effort for the Resolution Fund. To this end, an amendment to the financing contracts to the Resolution Fund was formalized, which introduced a set of changes on the repayment plans, the remuneration rates and other terms and conditions associated with these loans in order to adjust them. the Resolution Fund's ability to fully meet its obligations based on its regular revenues, that is, without the need to be charged, to the banks participating in the Resolution Fund, special contributions or any other type of extraordinary contribution.

According to the statement of the Resolution Fund of March 21, 2017, issued following an earlier statement of September 28, 2016 and the statement of the Ministry of Finance issued on the same date, the revision of the conditions of financing granted by the State Portuguese and participating banks aimed to ensure the sustainability and financial balance of the Resolution Fund, based on a stable, predictable and affordable charge for the banking sector. Based on this review, the Resolution Fund assumed that the full payment of its liabilities is ensured, as well as the respective remuneration, without the need for recourse to special contributions or any other type of extraordinary contributions by the banking sector.

On March 31, 2017, Bank of Portugal announced that it had selected the Lone Star Fund for the purchase of novobanco, which was completed on October 18, 2017, through the injection, by the new shareholder, of Euro 750 million, which was followed by a new capital contribution of Euro 250 million, made on December 21, 2017. The Lone Star Fund now holds 75% of novobanco 's share capital and the Resolution Fund the remaining 25%. Additionally, the approved conditions include:

- A contingent capitalization mechanism, under which the Resolution Fund may be called upon to make payments in the event of certain cumulative conditions materializing, related to: (i) the performance of a restricted set of assets of novobanco and (ii) the evolution of the Bank's capitalization levels. Any payments to be made under this contingent mechanism are subject to an absolute ceiling of EUR 3,890 million;
- An indemnity mechanism to novobanco, if certain conditions are met, it will be sentenced to pay any liability, by a final judicial decision that does not recognize or is contrary to the resolution measure applied by Bank of Portugal, or to the perimeter novobanco's assets and liabilities.

Notwithstanding the possibility provided for in the applicable legislation for the collection of special contributions, in view of the renegotiation of the conditions for loans granted to the Resolution Fund by the Portuguese State and a banking union, and to public notices issued by the Resolution Fund and the Office of the Minister of Finance. Finances that state that this possibility will not be used, these financial statements reflect the expectation of the Executive Board of Directors that the Bank will not be required to make special contributions or any other type of extraordinary contributions to finance the resolution measures applied to BES and BANIF, as well as the contingent capitalization mechanism and the indemnity mechanism referred to in the preceding paragraphs.

Any changes regarding this matter and the application of these mechanisms may have relevant implications for the Group's financial statements.

NOTE 39 – DISINTERMEDIATION

In accordance with the legislation in force, the managing companies together with the depositary Bank are jointly liable to the participants of the funds for the non-fulfilment of obligations assumed under the terms of the law and the regulations of the funds managed.

As at 31 December 2021 and 2020, the value of the assets under management by the Group companies are analysed as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Investment funds	1 309 544	1 128 238
Real estate investment funds	67 408	74 654
Pension funds	2 633 464	2 463 098
Discretionary management	700 260	710 054
	4 710 676	**4 376 044**

The amounts included in these captions are measured at fair value, determined at the balance sheet date.

NOTE 40 – RELATED PARTIES BALANCES AND TRANSACTIONS

The group of entities considered to be related parties by novobanco in accordance with the IAS 24 definitions, are (i) key management personnel (members of the Executive Board of Directors and members of the General Supervisory Board of novobanco); (ii) people or entities with a family, legal or business relationship with key management personnel; (iii) people or entities with a family, legal or business relationship with shareholders; (iv) shareholders holding direct or indirect stakes equal to or exceeding 2% of the share capital or voting rights of novobanco; (v) subsidiaries consolidated for accounting purposes under the full consolidation method; (vi) associated companies, that is, companies over which novobanco Group has significantly influence on the company's financial and operational polices, despite not having control; and (vii) entities under joint control of novobanco (joint ventures).

During 2021, the following transactions with Related Parties (credit and other types) were carried out:

1) Credit Operations

Entities / Individuals	Category	Operation	Amount (euros)
BEST Banco Electrónico de Serviço Total S.A.	novobanco Group	Bank Guarantee	8 090 174
		Bank Guarantee	41 359 876
EDENRED - Portugal S.A.	novobanco Group	Direct Debits Limits (RCE) (renewal)	410 000
		Credit Card Limits (renewal)	24 000
LOCARENT - Companhia Portuguesa Aluguer Viaturas S.A.	novobanco Group	Credit Card Limits (renewal)	10 000
		Current-Account Loan Account (renewal)	2 500 000
	novobanco Group	Trading Room Operations (RCE)	3 000 000
		Direct Debits Limits (RCE) (renewal)	4 000 000
	novobanco Group	Leasing (renewal and reduction)	25 000 000
		Leasing (renewal)	43 250 000
	novobanco Group	Commercial paper (renewal)	1 000 000
		Commercial paper (renewal)	4 500 000
LOCARENT - Companhia Portuguesa Aluguer Viaturas S.A.	novobanco Group	Commercial paper (renewal)	23 000 000
		Commercial paper (renewal)	50 000 000
Novobanco dos Açores	Common Management and/or Supervisory Members	Full subscription of the issue of Senior Debt Securities (non-preferred) at the novobanco dos Açores by the novobanco	5 000 000
Novo Banco Group (BEST, NB Açores e NB Finance)	Common Management and/or Supervisory Members	• Interbank Limits (Trading Room Operations) • Commercial Limits	1 400 000 000
Unicre - Cartão Internacional de Crédito S.A.	novobanco Group	Current-Account Loan Account	18 000 000
		Current-Account Loan Account	Up to 10 000 000
		Reformulation of 3 Current Account Loans (renewal)	20 050 000

2) Services rendered and other signed contracts

Entities / Individuals	Category	Operation	Amount (euros)
GNB Gestão de Ativos	novobanco Group	Intra Group Services Agreement	na
GNB Soc Gestora de Fundo de Pensões S.A.	novobanco Group	Real Estate Transaction	22 932 300

The Group balances with related parties as at 31 December 2021 and 2020, as well as the respective profit and losses, can be summarised as follows:

(in thousands of Euros)

	31.12.2021					31.12.2020				
	Assets	Liabilities	Guarantees	Income	Expenses	Assets	Liabilities	Guarantees	Income	Expenses
Shareholders										
NANI HOLDINGS	-	153	-	332	-	-	153	-	332	-
FUNDO DE RESOLUÇÃO	209 220	11 040	-	-	26 190	598 312	-	-	-	12 743
Associated companies										
LINEAS	-	3 123	-	2 395	-	64 933	6 505	-	2 871	-
LOCARENT	121 982	3 146	-	1 040	3 282	115 832	633	-	1 081	3 806
ESEGUR	1 894	919	915	-	-	2 955	1 650	915	-	-
UNICRE	38 193	6	-	522	-	22 597	49	-	289	-
MULTIPESSOAL	2 017	43	273	-	-	2 030	31	273	31	-
BANCO DELLE TRE VENEZIE	-	222	-	-	-	-	94	-		
EDENRED	1	93 081	62	2 039	24	2	81 821	62	1 967	37
ENKROTT	-	-	-	-	-	-	-	-	15	
PNBC	-	-	-	-	-	-	-	-	-	276
	373 307	**111 733**	**1 250**	**6 328**	**29 496**	**806 661**	**90 936**	**1 250**	**6 586**	**16 862**
Other										
HUDSON ADVISORS PORTUGAL	-	-	-	-	4 138	-	-	-	-	4 685
NACIONAL CONTA LDA	375	18	-	-	-	295	52	-	-	-
INFRAMOURA	-	-	-	-	-	114	16	-	-	-
ESMALGLASS	-	100	2	-	-	-	107	2	-	-
MARINA VILAMOURA	-	-	-	-	-	-	1	-	-	-
Other	**375**	**118**	**2**	**-**	**4 138**	**409**	**176**	**2**	**-**	**4 685**

The amount of assets receivable from the Resolution Fund corresponds to the amount of the triggering of the Contingent Capital Agreement regarding the financial years 2021 and 2020. The liability corresponds to the amount to be delivered to the Resolution Fund arising from an addendum made in May 2021 to the Contingent Capitalization Mechanism contract.

In June 2018 a contract was entered into between NANI HOLDINGS, SGPS, S.A., LSF NANI INVESTMENTS S.à.r.l. and novobanco, to provide support services for the preparation of consolidated information and regulatory reports.

The assets on the balance sheet related to associated companies included in the table above refer mainly to loans and advances, and shareholder loans granted, or debt securities acquired in the scope of the Group's activity. The liabilities relate mainly to bank deposits taken.

The guarantees related to associated companies included in the table above refer essentially to guarantees provided.

Related party transactions were carried out at arm's length, under similar terms and conditions, when compared with others carried out with unrelated parties, and when these conditions were not verified, those exceptions were substantiated in accordance with the Bank's Related Party Transactions Policy.

All the loans granted to related parties are included in the impairment model, being subject to the determination of impairment in the same manner as the commercial loans and advances granted by the Group in the scope of its activity. All assets placed with related parties earn interest between 0% and 6.24% (the rates correspond to the rates applied according to the original currency of the asset).

The costs with remunerations and other benefits granted to Key Management Personnel of novobanco in 2021 and 2020, are as follows:

(in thousands of Euros)

	31.12.2021			31.12.2020		
	Executive Board of Directors	General and Supervisory Board	Total	Executive Board of Directors	General and Supervisory Board	Total
Short-term employment benefits	2 524	1 183	3 707	2 676	993	3 669
Post-employment benefits	2	-	2	3	-	3
Other long-term benefits	51	50	101	33	8	41
	2 577	**1 233**	**3 810**	**2 712**	**1 001**	**3 713**

In 2021 and 2020, variable remuneration to the Executive Board of Directors amounted to Euro 1,600 thousand and Euro 1,860 thousand, respectively, which respects to the remuneration that does not constitute acquired rights of the respective members until after the end of the restructuring period, and its payment is subject to approval and verification of certain conditions. Additionally, in 2020, costs of Euro 320 thousand were recorded as sign-on bonus resulting from the admission of a new Executive Director, and compensations for the termination of the mandate of three Executive Directors were recorded in the amount of Euro 206 thousand.

As at 31 December 2021 and 2020, the amount of credit granted and deposits from Key Management Personnel of novobanco was as follows:

Credit Granted

(i) to members of the Executive Board of Directors and their immediate relatives was Euro 317 thousand (December 31, 2020: Euro 331 thousand); and (ii) members of the General and Supervisory Board and their immediate relatives did not had credit granted (December 31, 2020: no exposure);

Deposits

(i) members of the Executive Board of Directors and their immediate relatives was Euro 1,080 thousand; (December 31, 2020: Euro 1,312 thousand) and (ii) the members of the General and Supervisory Board and their immediate relatives was Euro 1,562 thousand (December 31, 2020: Euro 1,293 thousand).

NOTE 41 – SECURITISATION OF ASSETS

As at 31 December 2021 and 2020, the outstanding securisation transactions made by the Group were as follows:

(in thousands of Euros)

Issue	Start date	Original amount	Current amount		Asset securitized
			31.12.2021	31.12.2020	
Lusitano Mortgages No.4 plc	September 2005	1 200 000	246 943	280 051	Mortgage loans (general scheme)
Lusitano Mortgages No.5 plc	September 2006	1 400 000	373 147	417 854	Mortgage loans (general scheme)
Lusitano Mortgages No.6 plc	July 2007	1 100 000	355 513	396 083	Mortgage loans (general scheme)
Lusitano Mortgages No.7 plc	September 2008	1 900 000	907 327	1 003 303	Mortgage loans (general scheme)

In accordance with the consolidation rules established in IFRS 10, Lusitano Mortgages No. 6 plc and Lusitano Mortgages No. 7 plc are consolidated using the full consolidation method as from the date of their incorporation (see Note 1). The following are the main impacts of the consolidation of these entities on the Group's accounts:

(in thousands of Euros)

	31.12.2021	31.12.2020
Cash, cash balances at Central Banks and other demand deposits	121 856	122 769
Loans and advances to customers (net of impairment)	1 255 063	1 390 316
Liabilities represented by securities [(a)]	33 267	39 377

[(a)] See note 33

Additionally, Lusitano Mortgages No. 4 plc and Lusitano Mortgages No. 5 plc are not consolidated since they do not meet the rules defined in IFRS 10, namely because the interest retained by the Group is residual.

The main characteristics of these operations, as at 31 December 2021 and 2020, can be analysed as follows:

(in thousands of Euros)

31.12.2021

Issue	Bonds issued	Initial nominal value	Current nominal value	Interest held by Group (Nominal value)	Interest held by Group (Book value)	Maturity date	Initial rating of the bonds				Current rating of the bonds			
							Fitch	Moody's	S&P	DBRS	Fitch	Moody's	S&P	DBRS
Lusitano Mortgages No.4 plc	Class A	1 134 000	189 071	-	-	December 2048	AAA	Aaa	AAA	-	A+	Aa2	AA	-
	Class B	22 800	12 515	-	-	December 2048	AA	Aa2	AA	-	BBB+	A2	A-	-
	Class C	19 200	10 539	-	-	December 2048	A+	A1	A+	-	BB+	Ba1	BBB-	-
	Class D	24 000	13 174	-	-	December 2048	BBB+	Baa1	BBB-	-	CCC	Caa1	B-	-
	Class E	10 200	5 100	-	-		NA	-	NA	-	-	-	-	-
						December 2059								
Lusitano Mortgages No.5 plc	Class A	1 323 000	277 689	-	-	December 2059	AAA	Aaa	AAA	-	A	Aa2	AA	-
	Class B	26 600	22 729	-	-	December 2059	AA	Aa2	AA	-	BBB-	Baa2	AA	-
	Class C	22 400	19 141	-	-	December 2059	A	A1	A	-	B	Ba3	BBB	-
	Class D	28 000	23 926	-	-	December 2059	BBB+	Baa2	BBB	-	CC	Caa3	B	-
	Class E	11 900	11 301	-	-		N/A	-	N/A	-	-	-	-	-
						March 2060								
Lusitano Mortgages No.6 plc	Class A	943 250	189 723	157 956	152 431	March 2060	AAA	Aaa	AAA	-	AA	Aa2	A-	-
	Class B	65 450	65 450	63 950	61 124	March 2060	AA	Aa3	AA	-	A	Aa2	A-	-
	Class C	41 800	41 800	41 800	33 936	March 2060	A	A3	A	-	BB-	A3	A-	-
	Class D	17 600	17 600	17 600	12 388	March 2060	BBB	Baa3	BBB	-	CCC	B3	B	-
	Class E	31 900	31 900	31 900	8 568	March 2060	BB	-	BB	-	CC	-	D	-
	Class F	22 000	22 000	22 000	-		-	-	-	-	-	-	-	-
Lusitano Mortgages No.7 plc	Class A	1 425 000	437 435	437 434	409 580	October 2064	-	-	AAA	AAA	-	-	AA	AAA
	Class B	294 500	294 500	294 500	266 902	October 2064	-	-	BBB-	-	-	-	A	-
	Class C	180 500	180 500	180 500	121 349	October 2064	-	-	-	-	-	-	-	-
	Class D	57 000	57 000	57 000	-	October 2064	-	-	-	-	-	-	-	-

(in thousands of Euros)

31.12.2020

Issue	Bonds issued	Initial nominal value	Current nominal value	Interest held by Group (Nominal value)	Interest held by Group (Book value)	Maturity date	Initial rating of the bonds				Current rating of the bonds			
							Fitch	Moody's	S&P	DBRS	Fitch	Moody's	S&P	DBRS
Lusitano Mortgages No.4 plc	Class A	1 134 000	214 891	-	-	December 2048	AAA	Aaa	AAA	-	BB	Aa3	AA	-
	Class B	22 800	14 224	-	-	December 2048	AA	Aa2	AA	-	BB	Baa1	BB+	-
	Class C	19 200	11 978	-	-	December 2048	A+	A1	A+	-	BB	Ba3	B+	-
	Class D	24 000	14 973	-	-	December 2048	BBB+	Baa1	BBB-	-	CCC	Caa3	B-	-
	Class E	10 200	5 100	-	-	December 2048	NA	-	NA	-	-	-	-	-
Lusitano Mortgages No.5 plc	Class A	1 323 000	311 465	-	-	December 2059	AAA	Aaa	AAA	-	BB	A1	AA	-
	Class B	26 600	25 494	-	-	December 2059	AA	Aa2	AA	-	BB	Baa3	A	-
	Class C	22 400	21 469	-	-	December 2059	A	A1	A	-	B	B3	BBB	-
	Class D	28 000	26 836	-	-	December 2059	BBB+	Baa2	BBB	-	CC	Ca	B	-
	Class E	11 900	11 900	-	-	December 2059	N/A	-	N/A	-	-	-	-	-
Lusitano Mortgages No.6 plc	Class A	943 250	235 906	188 337	180 754	March 2060	AAA	Aaa	AAA	-	A	Aa3	A-	-
	Class B	65 450	65 450	63 950	52 775	March 2060	AA	Aa3	AA	-	BBB-	Baa1	A-	-
	Class C	41 800	41 800	41 800	32 562	March 2060	A	A3	A	-	B	Ba3	BBB+	-
	Class D	17 600	17 600	17 600	11 906	March 2060	BBB	Baa3	BBB	-	CCC	Caa3	CCC	-
	Class E	31 900	31 900	31 900	8 458	March 2060	BB	-	BB	-	CC	-	D	-
	Class F	22 000	22 000	22 000	-	March 2060	-	-	-	-	-	-	-	-
Lusitano Mortgages No.7 plc	Class A	1 425 000	528 003	528 003	488 778	October 2064	-	-	AAA	AAA	-	-	AA	AAA
	Class B	294 500	294 500	294 500	265 146	October 2064	-	-	BBB-	-	-	-	BBB	-
	Class C	180 500	180 500	180 500	116 051	October 2064	-	-	-	-	-	-	-	-
	Class D	57 000	57 000	57 000	-	October 2064	-	-	-	-	-	-	-	-

NOTE 42 – FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The governance model of the valuation of the Group's financial instruments is defined in internal regulations, which establish the policies and procedures to be followed in the identification and valuation of financial instruments, the control procedures and the definition of the responsibilities of the parties involved in this process.

The fair value of listed financial assets is determined based on the closing price (bid-price), the price of the last transaction made or the value of the last known price (bid). In the absence of quotation, the Group estimates fair value using (i) valuation methodologies, such as the use of prices for recent transactions, similar and carried out under market conditions, discounted cash flow techniques and customized option valuation models. in order to reflect the particularities and circumstances of the instrument and (ii) valuation assumptions based on market information.

For the assets included in the level 3 of fair value hierarchy, whose quotation is provided by a third-party using parameters not observable in the market, the Group proceeds, when applicable, to a detailed analysis of the historical and liquidity performance of these assets, which may imply an additional adjustment to its fair value, as well as a result of additional internal or external valuations.

The valuation models used by type of instrument are as follows:

Money market operations and loans and advances to customers: fair value is determined by the discounted cash flows method, with future cash flow being discounted considering the currency yield curve plus the credit risk of the entity contractually liquidating that flow.

Commercial paper: its fair value is determined by discounting future cash flows considering the currency yield curve plus the credit risk of the issuer determined in the issuance program.

Debt instruments (bonds) with liquidity: the selective independent valuation methodology is used based on observations available on Bloomberg, designated as 'Best Price', where all the valuations available are requested, but only previously validated sources considered as input, with the model excluding prices due to seniority and outlier prices. In the specific case of the Portuguese sovereign debt, and due to the market making activity and the materiality of the Group's positions, the CBBT source valuations are always considered (the CBBT is a composite of valuations prepared by Bloomberg, which considers the average of executable prices with high liquidity).

Debt instruments (bonds) with reduced liquidity: the models considered for the valuation of low liquidity bonds without observable market valuations are determined taking into account the information available on the issuer and the instrument, with the following models being considered: (i) discounted cash flows - cash flows are discounted considering the interest rate risk, credit risk of the issuer and any other risks subjacent to the instrument; or (ii) valuations made available by external counterparties, when it is impossible to determine the fair value of the instrument, with the selection always falling on reliable sources with reputed credibility in the market and impartiality in the valuation of the instruments being analysed.

Convertible bonds: the cash flows are discounted considering the interest rate risk, the issuer's credit risk and any other risks that may be associated with the instrument, increased by the net present value (NPV) of the convertibility options embedded in the instrument.

Shares and quoted funds: for quoted market products, the quotation on the respective stock exchange is considered.

Unquoted Shares: the valuation is carried out using external valuations made of the companies in which the shareholding is held. In the event the request for an external valuation is not justified due to the immateriality of this position in the balance sheet, the position is revalued considering the book value of the entity.

Unquoted funds: the valuation considered is that provided by the fund's management company. In the event there are calls for capital after the reference date of the last available valuation, the valuation is recalculated considering the capital calls subsequent to the reference date at the amount at which these were made, until a new valuation is made available by the management company, already considering the capital calls realised. Note that although the valuations made available by the management companies are accepted, whenever applicable in accordance with the fund regulations, the Group requests the legal certification of accounts issued by independent auditors, in order to obtain the necessary additional comfort to the information made available by the management company. Additionally, and for the largest assets held by real estate investment funds, and according to an annual work plan previously approved by the Executive Board of Directors, a process of challenge to their valuations is carried out, consisting of a detailed technical analysis of the main assumptions considered in the valuations. This process may lead to the need for new valuations, as well as adjustments to the fair value of these assets.

In the specific case of the Restructuring Funds ("Assessed Assets"), their assessment was carried out during the period of 2020 by an independent external international entity ("Appraiser"), which engaged renowned real estate appraisal companies to determine the fair value of real estate assets, which represent a significant part of the funds' portfolio.

The fair vale estimation Assessed Assets requires a multi-step approach, taking into account the following (i) The fair value of the assets invested by each fund (the "Underlying Assets"); (ii) The nature of the participation of the respective Fund in each of the Underlying Assets; (iii) The other assets and liabilities on the Fund's balance; (iv) The nature of novobanco's investment in each of the funds; and (v) Consideration of any applicable discounts or premiums. The fair value of the Underlying Assets was estimated using three valuation approaches (market, income and cost) depending, among other things, on the specific nature of each asset, its state of development, the information available and the date of the initial investment. The other assets and liabilities in the fund's balances would normally be valued using the cost approach, with potential adjustments based on the market, and the consideration of discounts and premiums, normally assessed using market data and benchmarks.

Underlying assets are mainly divided into Non-Real Estate assets and Real Estate assets (which can be subdivided into Hotels and Other Real Estate assets). For Non-Real Estate Assets, the Appraiser considered the Market approach based essentially on Market Multiples for comparable assets and considering the historical performance of each asset. For Real Estate Assets, the appraiser considered either the market approach or the income approach, depending on the state of each asset. In the case of hotels, the main value-based assumptions considered were the average room rate, the occupancy rate, the GOP margin, the EBITDA margin, the Capex needs and the discount rate. In relation to Other Real Estate Assets, the main assumptions of value were sales prices, construction costs, timeline (both to development and sale) and Discount Rates. Each of the assumptions described above considered in the valuation of real estate assets was determined from asset to asset (total of 149 major assets subdivided into a total of more than 1,000 assets), depending on the status of the asset, the asset's historical performance, location and market competitors.

With regard to information on quantitative indicators underlying the fair value measurements of the Restructuring Funds, the following is presented:

Assumption	Hotels			Real Estate under development			Real Estate			Commercial Centres			Agriculture properties		
	Min	Average	Max	Min	Average	Max	Min	Average	Max	Min	Average	Max	Min	Average	Max
Bedroom average rate (€)	51	177	497	95	145	207	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Occupancy rate %	40%	58%	78%	54%	66%	75%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
€/square meter	n.a.	n.a.	n.a.	30	3 227	6 059	173	2 024	4 610	1 007	3 460	4 560	n.a.	n.a.	n.a.
€/Ha	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	3 954	23 088	77 296
Discount rate	7.5%	8.2%	10.6%	8.1%	12.1%	20.0%	5.0%	6.0%	7.0%	9.3%	9.7%	10.6%	n.a.	n.a.	n.a.
Valuation methodology	Market approach Income approach			Market approach Income approach			Market approach Income approach			Market approach Income approach			Market approach Income approach		

Notes:

1. all assumptions presented above were calculated based on the averages of the values considered by the external appraisers per appraised property.

2.The average presented was calculated on the weighted average per property in the sum of the value of the underlying assets per category presented

3.Hotel - Includes hotels and aparthotels currently in operation (Hotels under development or project are incorporated in Real Estate under Development along with their respective property

4. €/m2 considers the gross construction area

In addition, additional assumptions considered in the fair value measurement of the financial investments held in the restructuring funds are presented below:

Type of Fund	Discount based on P/BV observable market data
Real estate and Tourism	14.5%
Real estate and Tourism/Other	13.6%
Other	10.6%

In 2021, and as had been done in 2020, the observable movement in terms of the evolution of market prices of funds, companies and assets considered comparable to the underlying assets was considered to obtain an objective estimate of the evolution of the fair value of these assets between December 31, 2020 and December 31, 2021.

Derivative instruments: if these are traded on organised markets, the valuations are observable in the market, otherwise these are valued using standard models and relying on observable variables in the market, namely:

- Foreign currency options: are valued through the front office system, which considers models such as Garman-Kohlhagen, Binomial, Black & Scholes, Levy or Vanna-Volga;
- Interest rate swaps and foreign currency swaps: the valuation of these instruments is done through the front office system, where the fixed leg cash flows of the instrument are discounted based on the yield curve of the respective currency, and the cash flows of the variable leg are projected considering the forward curve and discounted, also considering discount factors and forward rates based on the yield curve of the respective currency;
- Credit Default Swaps (CDS): both legs of the CDS are composed of cash flows contingent on the credit risk of the underlying asset and are therefore valued using market credit spreads;
- Futures and Options: the Group trades these products on an organised market, but also has the possibility to trade them on the OTC market. For futures and options traded on an organised market, the valuations are observable in the market, with the valuation being received daily through the broker selected for these products. For futures and options traded on the OTC market, and depending on the type of product and the underlying asset type, discrete time (binominal) or continuous time (Black & Scholes) models may be used.

The Group calculates the Credit Valuation Adjustment (CVA) for derivative instruments in accordance with the following methodology: (i) Portfolio basis – the calculation of the CVA corresponds to the application, to the aggregate exposure of each counterpart, of an expected loss and a recovery rate, considering the average duration period estimated for each exposure; (ii) Individual basis – the calculation of the CVA on an individual basis is based on the determination of the exposure using stochastic methods (Expected Positive Exposure) which translates into the calculation of the expected fair value exposure that each derivative is likely to assume over its remaining life. Subsequently, are applied to the exposure determined, an expected loss and a recovery rate.

The Group chooses not to register "Debt Valuation Adjustment" (DVA), which represents the market value of own credit risk of the group of a certain negative exposure to a counterparty, reflecting a prudent perspective of application of this regulation. It should be noted that the exposure potentially subject to DVA is controlled on a monthly basis and has assumed immaterial values.

Investment properties: its fair value is determined based on periodic evaluations carried out by independent entities specialized in this type of service, however, given the subjectivity of some assumptions used in the assessments, the Group carries out internal analysis on the assumptions used, which may imply additional adjustments to fair value, supported by additional internal or external valuations (see accounting policy in Note 7.19). The market value of properties for which a promissory purchase and sale agreement has been entered into corresponds to the value of that contract.

Validation of the valuation of financial instruments is performed by an independent area, which validates the models used and the prices attributed. More specifically, this area is responsible for independent price verification for mark-to-market valuations, for mark-to-model valuations, validates the models used and changes to them wherever they exist. For prices supplied by external entities, the validation performed consists in confirming the use of the correct price.

The fair value of financial assets and liabilities and non-financial assets (investment properties) measured at fair value of the Group is as follows:

(in thousands of Euros)

	At Fair Value			
	Quoted market prices (Level 1)	Valuation models based on observable market parameters (Level 2)	Valuation models based on unobservable market parameters (Level 3)	Total Fair Value
31 December 2021				
Financial assets held for trading	**114 465**	**263 199**	**-**	**377 664**
Securities held for trading	114 465	-	-	114 465
Bonds issued by public entities	*114 465*	-	-	*114 465*
Derivatives held for trading	-	263 199	-	263 199
Exchange rate contracts	-	*29 127*	-	*29 127*
Interest rate contracts	-	*225 186*	-	*225 186*
Others	-	*8 886*	-	*8 886*
Financial assets mandatorily at fair value through profit or loss	**190 252**	**22 890**	**586 450**	**799 592**
Bonds issued by other entities	*52 532*	*50*	*2 378*	*54 960*
Shares	*137 607*	-	*290 279*	*427 886*
Other variable income securities	*113*	*22 840*	*293 793*	*316 746*
Financial assets at fair value through other comprehensive income	**7 167 814**	**9 958**	**43 224**	**7 220 996**
Bonds issued by public entities	*5 761 717*	-	-	*5 761 717*
Bonds issued by other entities	*1 398 899*	-	-	*1 398 899*
Shares	*7 198*	*9 958*	*43 224*	*60 380*
Derivatives - Hedge Accounting	**-**	**19 639**	**-**	**19 639**
Interest rate contracts	-	*19 639*	-	*19 639*
Investment properties	**-**	**-**	**625 187**	**625 187**
Assets at fair value	**7 472 531**	**315 686**	**1 254 861**	**9 043 078**
Financial liabilities held for trading	**-**	**304 104**	**1 950**	**306 054**
Derivatives held for trading	-	304 104	1 950	306 054
Exchange rate contracts	-	*34 910*	-	*34 910*
Interest rate contracts	-	*266 012*	*1 950*	*267 962*
Other	-	*3 182*	-	*3 182*
Derivatives - Hedge Accounting	**-**	**44 460**	**-**	**44 460**
Interest rate contracts	-	*44 460*	-	*44 460*
Liabilities at fair value	**-**	**348 564**	**1 950**	**350 514**

(in thousands of Euros)

	At Fair Value			
	Quoted market prices (Level 1)	Valuation models based on observable market parameters (Level 2)	Valuation models based on unobservable market parameters (Level 3)	Total Fair Value
31 December 2020				
Financial assets held for trading	**267 016**	**388 257**	**-**	**655 273**
Securities held for trading	267 016	-	-	267 016
Bonds issued by public entities	*267 016*	-	-	*267 016*
Derivatives held for trading	-	388 257	-	388 257
Exchange rate contracts	-	*57 205*	-	*57 205*
Interest rate contracts	-	*319 662*	-	*319 662*
Others	-	*11 390*	-	*11 390*
Financial assets mandatorily at fair value through profit or loss	**214 882**	**36 849**	**709 231**	**960 962**
Bonds issued by other entities	*82 203*	*50*	*77 931*	*160 184*
Shares	*132 525*	-	*273 579*	*406 104*
Other variable income securities	*154*	*36 799*	*357 721*	*394 674*
Financial assets at fair value through other comprehensive income	**7 854 337**	**10 028**	**43 222**	**7 907 587**
Bonds issued by public entities	*6 490 076*	-	-	*6 490 076*
Bonds issued by other entities	*1 352 759*	-	-	*1 352 759*
Shares	*11 502*	*10 028*	*43 222*	*64 752*
Other variable income securities	-	-	-	-
Derivatives - Hedge Accounting	**-**	**12 972**	**-**	**12 972**
Interest rate contracts	-	*12 972*	-	*12 972*
Investment properties	**-**	**-**	**592 605**	**592 605**
Assets at fair value	**8 336 235**	**448 106**	**1 345 058**	**10 129 399**
Financial liabilities held for trading	**-**	**552 633**	**2 158**	**554 791**
Derivatives held for trading	-	552 633	2 158	554 791
Exchange rate contracts	-	*45 493*	-	*45 493*
Interest rate contracts	-	*501 585*	*2 158*	*503 743*
Credit default contracts	-	*16*	-	*16*
Other	-	*5 539*	-	*5 539*
Derivatives - Hedge Accounting	**-**	**72 543**	**-**	**72 543**
Interest rate contracts	-	*72 543*	-	*72 543*
Liabilities at fair value	**-**	**625 176**	**2 158**	**627 334**

The changes occurred in financial assets and financial liabilities valued based on non-observable market information (level 3 of the fair value hierarchy) during the financial years of 2021 and 2020, can be analysed as follows:

(in thousands of Euros)

	31.12.2021							
	Financial assets held for trading		Financial assets mandatorily at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Investment properties	Total assets	Financial liabilities held for trading	Total liabilities
	Derivatives held for trading	Economic hedging derivatives					Derivatives held for trading	
Balance as at 31 December 2020	**-**	**-**	**709 231**	**43 222**	**592 605**	**1 345 058**	**2 158**	**2 158**
Acquisitions	-	-	11 200	556	4 973	16 729	24 117	24 117
Attainment of maturity		-	(22 352)	-	-	(22 352)	-	-
Settlements	-	-	(122 743)	(4 247)	-	(126 990)	(24 117)	(24 117)
Disposals	-	-	-	-	(49 727)	(49 727)	-	-
Changes in value	-	-	8 363	1 393	31 179	40 935	(208)	(208)
Other movements	-	-	-	-	46 157	46 157	-	-
Balance as at 31 December 2021	**-**	**-**	**586 450**	**43 224**	**625 187**	**1 254 861**	**1 950**	**1 950**

(in thousands of Euros)

	31.12.2020							
	Financial assets held for trading		Financial assets mandatorily at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Investment properties	Total assets	Financial liabilities held for trading	Total liabilities
	Derivatives held for trading	Economic hedging derivatives					Derivatives held for trading	
Balance as at 31 December 2019	**191**	**74 093**	**1 142 664**	**37 179**	**700 744**	**1 954 871**	**1 837**	**1 837**
Acquisitions	-	-	8 479	5 125	11 966	25 570	-	-
Attainment of maturity	-	-	(41 302)	-	-	(41 302)	-	-
Settlements	-	(80 489)	(1 583)	(22 913)	-	(104 985)	-	-
Transfers in	-	-	-	16 326	-	16 326	-	-
Transfers out	-	-	(27 541)	(2 685)	-	(30 226)	-	-
Disposals	-	-	-	-	(67 581)	(67 581)	-	-
Changes in value	(191)	6 396	(371 486)	10 190	(101 828)	(456 919)	321	321
Other movements	-	-	-	-	49 304	49 304	-	-
Balance as at 31 December 2020	**-**	**-**	**709 231**	**43 222**	**592 605**	**1 345 058**	**2 158**	**2 158**

In fiscal years 2021 and 2020 there were no significant transfers of value between the different levels of the fair value hierarchy.

Potential gains and losses on financial instruments and investment property classified at level 3 of the fair value hierarchy are recorded in profit or loss or revaluation reserves in accordance with the respective asset accounting policy. The amounts calculated at 31 December 2021 and 2020 were as follows:

(in thousands of Euros)

	31.12.2021			31.12.2020		
	Recognised in reserves	**Recognised in the income statement**	**Total**	**Recognised in reserves**	**Recognised in the income statement**	**Total**
Derivatives held for trading	-	144	144	-	23 605	23 605
Economic hedging derivatives	-	(24 117)	(24 117)	-	(68 722)	(68 722)
Financial assets mandatorily at fair value through profit or loss	-	21 662	21 662	-	(359 642)	(359 642)
Financial assets at fair value through other comprehensive income	9 122	-	9 122	10 905	-	10 905
Investment properties	-	31 182	31 182	-	(104 310)	(104 310)
	9 122	**28 871**	**37 993**	**10 905**	**(509 390)**	**(498 485)**

The following table presents, for financial assets included in level 3 of the fair value hierarchy, the main valuation methods used and the impact of changing the main variables used in their valuation, when applicable:

(in millions of Euros)

Assets classified under level 3	31.12.2021						
	Valuation Model	Variable analysed	Carrying book value	Unfavorable scenario		Favorable scenario	
				Change	Impact	Change	Impact
Financial assets mandatorily at fair value through profit or loss			**586.5**		**(2.4)**		**4.8**
Obligations of other issuers	*Cash flow discount model*	*Specific Impairment*	2.4	-50%	(2.4)	+50%	4.8
Shares			290.3		-		-
	Management company adjusted valuation	*(b)*	*287.5*		-		-
	Others	*(a)*	*2.8*		-		-
Other variable income securities			293.8		-		-
	Management company adjusted valuation	*(b)*	*236.5*		-		-
	Management company adjusted valuation	*(c)*	*57.3*		-		-
Financial assets at fair value through other comprehensive income			**43.2**		**(2.9)**		**0.1**
Shares			43.2		(2.9)		0.1
	Discounted cash flows	*Renewable Energy Tariff*	*16.2*		*(2.9)*		*0.1*
	Others	*(a)*	*27.0*		-		-
Total			**629.7**		**(5.3)**		**4.9**

(a) No sensitivity analysis was carried out for these categories as these include securities of an individually immaterial value.

(b) For the sensitivity analysis carried out on the valuation of the Restructuring Funds, taking into account the valuation methodologies applied and considering that real estate assets represent more than 95% of the underlying assets of the Funds, a variation of + 10% was considered and -10% in the fair value of the main real estate assets of each Fund, which leads to an impact of + 6.15% and -5.8% in the fair value of the restructuring funds.

(c) In the specific case of participation units valued in accordance with quotations provided by the respective management company, it is not reasonable to carry out an analysis of the impact of changes of the variables subjacent to the determination of the quotation by the entity

(in millions of Euros)

Assets classified under level 3	31.12.2020						
	Valuation Model	Variable analysed	Carrying book value	Unfavorable scenario		Favorable scenario	
				Change	Impact	Change	Impact
Financial assets mandatorily at fair value through profit or loss			**709.2**		**(22.2)**		**12.2**
Obligations of other issuers	Discounted cash flow model	Specific Impairment	77.9	-50%	(22.2)	+50%	12.2
Shares	Valuing adjusted management company	(b)	273.6		-		-
Other variable income securities			*357.7*		-		-
	Valuing adjusted management company	(b)	225.3		-		-
	Valuation of the management company	(c)	*132.5*		-		-
Financial assets at fair value through other comprehensive income			**43.2**		**(2.9)**		**0.1**
Shares			43.2		(2.9)		0.1
	Discounted cash flow model	*Renewable energy Rates*	*16.2*		*(2.9)*		*0.1*
	Other	(a)	*27.0*		-		-
Total			**752.5**		**(25.1)**		**12.3**

(a) No sensitivity analysis was carried out for these categories as these include securities of an individually immaterial value.

(b) For the sensitivity analysis carried out on the valuation of the Restructuring Funds, taking into account the valuation methodologies applied and considering that real estate assets represent more than 95% of the underlying assets of the Funds, a variation of + 10% was considered and -10% in the fair value of the main real estate assets of each Fund. which leads to an impact of + 6.15% and -5.8% in the fair value of the restructuring funds.

(c) In the specific case of participation units valued in accordance with quotations provided by the respective management company, it is not reasonable to carry out an analysis of the impact of changes of the variables subjacent to the determination of the quotation by the entity

The main parameters used, at 31 December 2021 and 2020, in the valuation models were as follows:

Interest rate curves

The short-term rates presented reflect benchmark interest rates for the money market, whilst those presented for the long-term represent the interest rate swap quotations for the respective periods:

(%)

	31.12.2021			31.12.2020		
	EUR	USD	GBP	EUR	USD	GBP
Overnight	-0.5740	0.0644	0.2100	-0.5780	0.0776	0.1000
1 month	-0.5830	0.1013	0.2400	-0.5540	0.1439	0.0900
3 months	-0.5720	0.2091	0.3900	-0.5450	0.2384	0.0900
6 months	-0.5460	0.3388	0.6100	-0.5260	0.2576	0.1450
9 months	-0.5235	0.4603	0.6700	-0.5125	0.2995	0.1950
1 year	-0.5010	0.5831	0.8246	-0.4990	0.3419	-0.0125
3 years	-0.1450	1.1495	1.2972	-0.5080	0.2370	0.0913
5 years	0.0160	1.3460	1.2910	-0.4575	0.4275	0.1926
7 years	0.1300	1.4530	1.2373	-0.3845	0.6478	0.2799
10 years	0.3030	1.5610	1.2095	-0.2650	0.9170	0.3966
15 years	0.4920	1.6800	1.1817	-0.0720	1.1835	0.5200
20 years	0.5480	1.7708	1.1518	0.0090	1.3033	0.5730
25 years	0.5240	1.7316	1.1264	0.0090	1.3680	0.5805
30 years	0.4790	1.7160	1.1030	-0.0250	1.3998	0.5741

Credit Spreads

The credit spreads used by the Group in the valuation of credit derivatives are those disclosed on a daily basis by Markit, representing observations pertaining to around 85 renowned international financial entities. The evolution of the main indexes, understood as being representative of the credit spread behaviour in the market during the year, is presented as follows:

(basis points)

Index	Series	1 year	3 years	5 years	7 years	10 years
31 December 2021						
CDX USD Main	**37**	0.00	0.00	49.57	68.55	0.00
iTraxx Eur Main	**36**	10.43	26.82	47.76	66.71	87.01
iTraxx Eur Senior Financial	**36**	0.00	0.00	54.86	0.00	85.86
31 December 2020						
CDX USD Main	**35**	18.95	30.35	49.98	70.70	90.52
iTraxx Eur Main	**34**	0.00	27.66	47.95	66.24	86.37
iTraxx Eur Senior Financial	**34**	0.00	0.00	59.06	0.00	89.30

Interest rate volatility

The values presented below represent the implicit volatilities (at the money) used for the valuation of interest rate options:

(%)

	31.12.2021			31.12.2020		
	EUR	USD	GBP	EUR	USD	GBP
1 year	23.16	73.74	76.14	15.39	118.44	-
3 years	55.79	59.15	63.57	21.33	91.12	-
5 years	65.81	56.88	71.17	28.38	84.06	-
7 years	68.34	54.59	79.98	34.60	65.41	-
10 years	68.98	50.93	88.08	41.18	62.77	-
15 years	66.28	-	-	46.54	-	-

Foreign exchange rates and volatility

Presented below, are the foreign exchange rates (European Central Bank) at the balance sheet date and the implicit volatilities (at the money) for the main currencies used in the derivatives' valuation:

Foreign exchange rate	31.12.2021	31.12.2020	Volatility (%) 1 month	3 months	6 months	9 months	1 year
EUR/USD	1.1326	1.2271	5.15	5.38	5.55	5.57	5.58
EUR/GBP	0.8403	0.8990	5.13	5.63	6.05	6.25	6.39
EUR/CHF	1.0331	1.0802	4.33	4.63	4.90	4.98	4.95
EUR/NOK	9.9888	10.4703	9.01	9.18	9.20	9.18	9.18
EUR/PLN	4.5969	4.5597	5.43	5.60	5.79	5.85	5.83
EUR/RUB	85.3004	91.4671	7.51	8.07	8.71	9.29	9.58
USD/BRL [a)]	5.5713	5.1940	15.91	16.24	16.59	17.19	17.79
USD/TRY [b)]	13.4500	7.4265	77.79	60.35	49.71	45.58	41.29

[a)] Calculated based on EUR / USD and EUR / BRL exchange rates.

[b)] Calculated based on EUR / USD and EUR / TRY exchange rates.

Regarding foreign exchange rates, the Group uses in its valuation models the spot rate observed in the market at the moment of the valuation.

Equity indexes

The table below presents the evolution of the main market equity indexes and their respective volatilities, used in the valuation of equity derivatives:

	Quotation			Historical volatility		Implied Volatility
	31.12.2021	31.12.2020	% Change	1 month	3 months	
DJ Euro Stoxx 50	4 298	3 553	20.99%	24.38	17.81	-
PSI 20	5 569	4 898	13.70%	13.34	14.68	-
IBEX 35	8 714	8 074	7.93%	23.88	18.20	-
FTSE 100	7 385	6 461	14.30%	16.62	12.21	11.96
DAX	15 885	13 719	15.79%	21.77	16.10	13.76
S&P 500	4 766	3 756	26.89%	18.23	13.84	12.53
BOVESPA	104 822	119 017	-11.93%	21.59	23.76	24.48

The fair value of financial assets and liabilities recorded in the balance sheet at amortised cost is analysed as follows, having been estimated based on the main methodologies and assumptions described below:

(in thousands of Euros)

	Assets / liabilities recorded at amortised cost	Fair Value			
		Quoted market prices (Level 1)	Valuation models based on observable market parameters (Level 2)	Valuation models based on unobservable market parameters (Level 3)	Total fair value
31 December 2021					
Cash, cash balances at central bank and other demand deposits	5 871 538	-	5 871 538	-	5 871 538
Financial assets at amortised cost					
Debt securities	2 338 697	1 076 479	327 192	1 146 334	2 550 005
Loans and advances to banks	50 466	-	50 466	-	50 466
Loans and advances to customers	23 650 739	-	-	24 028 198	24 028 198
Financial assets	**31 911 440**	**1 076 479**	**6 249 196**	**25 174 532**	**32 500 207**
Financial liabilities measured at amortised cost					
Deposits from banks	10 745 155	-	10 779 351	-	10 779 351
Due to customers	27 582 093	-	-	27 582 093	27 582 093
Debt securities issued, subordinated debt and liabilities associated to transferred asset	1 514 153	1 739 388	-	77 349	1 816 737
Other financial liabilities	374 593		-	374 593	374 593
Financial liabilities	**40 215 994**	**1 739 388**	**10 779 351**	**28 034 035**	**40 552 774**

(in thousands of Euros)

	Assets / liabilities recorded at amortised cost	Fair Value			
		Quoted market prices (Level 1)	Valuation models based on observable market parameters (Level 2)	Valuation models based on unobservable market parameters (Level 3)	Total fair value
31 December 2020					
Cash, cash balances at central bank and other demand deposits	2 695 459	-	2 695 459	-	2 695 459
Financial assets at amortised cost					
Debt securities	2 229 947	846 176	378 588	1 203 883	2 428 647
Loans and advances to banks	113 795	-	113 795	-	113 795
Loans and advances to customers	23 554 304	-	-	23 784 698	23 784 698
Financial assets	**28 593 505**	**846 176**	**3 187 842**	**24 988 581**	**29 022 599**
Financial liabilities measured at amortised cost					
Deposits from banks	10 102 896	-	10 143 505	-	10 143 505
Due to customers	26 322 060	-	-	26 322 060	26 322 060
Debt securities issued, subordinated debt and liabilities associated to transferred assets	1 017 928	1 146 753	1 800	82 898	1 231 451
Other financial liabilities	365 883		-	365 883	365 883
Financial liabilities	**37 808 767**	**1 146 753**	**10 145 305**	**26 770 841**	**38 062 899**

Cash and deposits with Central Banks, Deposits with banks and Loans and advances to credit institutions and Deposits from Central Banks.

Considering the short-term nature of these financial instruments, their carrying book value is a reasonable estimate of their fair value.

Securities at amortised cost

The fair value of securities recorded at fair value is estimated according to the methodologies used for the valuation of securities recorded at fair value, as described at the beginning of the current Note.

Loans and advances to customers

The fair value of loans and advances to customers is estimated based on the discounted expected future cash flows of principal and interest, assuming that the instalments are paid on the dates contractually defined. The expected future cash flows from portfolios of loans with similar credit risk characteristics, such as residential mortgage loans, are estimated collectively on a portfolio basis. The discount rates used by the Group are the current interest rates used for loans with similar characteristics.

Deposits from credit institutions

The fair value of deposits from Central Banks and Deposits from credit institutions is estimated based on the discounted expected future cash flows of principal and interest.

Due to customers

The fair value of these financial instruments is estimated based on the discounted expected future cash flows of principal and interest. The discount rate used by the Group is that which reflects the current interest rates applicable to deposits with similar characteristics at the balance sheet date. Given that the interest rates applicable to these instruments are renewed for periods under one year, there are no material relevant differences in their fair value.

Debt securities issued and Subordinated debt

The fair value of these instruments is based on quoted market prices, when available. When not available, the Group estimates their fair value by discounting their expected future cash flows of principal and interest.

Other financial liabilities

These liabilities are short-term and therefore the book value is a reasonable estimate of their fair value.

NOTE 43 – TRANSFER OF ASSETS

As part of the restructuring process of the Portuguese real estate sector, several initiatives were launched to create financial, operational and management conditions to the sector. Accordingly, the Government, in close liaison with the business and the financial sector, including BES, encouraged the creation of companies and specialised funds which, through concentration, aggregation, mergers and integrated management, could achieve the required synergies to recover the companies. Pursuing the goals established, companies (parent companies) were incorporated, in which the Originating Bank had minority interests and which, in turn, now hold almost all the share capital of certain subsidiaries (subsidiaries of those parent companies) to acquire certain real estate bank loans.

Several assignments operations of financial assets (namely loans and advances to customers) were made to the latter entities (subsidiaries of the parent companies). These entities are responsible for managing the assets received as collateral and, after the assignment of the loans and advances to customers, for implementing a plan to increase their value. Almost all the financial assets assigned under these operations were derecognized from the balance sheet of the Group, since a substantial portion of the risks and rewards associated with these, as well as the respective control, were transferred to those third parties.

These acquiring entities have a specific management structure, fully autonomous from the assignor Banks, appointed on the date of their incorporation and have the following main responsibilities:

- define the entity's purpose;
- to administer and manage, exclusively and independently, the assets acquired, to define the objectives and investment policy as well as the management and affairs of the entity.

The acquiring entities are predominantly financed through the issuance of senior equity instruments, fully subscribed by the parent companies. The amount of capital represented by senior securities equals the fair value of the underlying asset, determined through a negotiation process based on valuations made by both parties. These securities are remunerated at an interest rate that reflects the risk of the company holding the assets. Additionally, the funding can be supplemented through Bank underwriting of junior capital instruments in an amount equal to the difference between the carrying book value of the assets transferred and the fair value subjacent to the senior securities' valuation. These junior capital instruments, when subscribed by the Group, will give rise to a contingent positive amount, if the value of the assets assigned exceeds the value of the senior securities plus their remuneration, and are normally limited to a maximum of 25% of the aggregate amount of the senior and junior securities issued.

Given that these junior securities reflect a differential assessment (gap) of the fair value of the assets assigned, based on a valuation performed by independent entities and a negotiation process between the parties, they are fully provided for in the Group's balance sheet.

Therefore, following the asset assignment operations, the Group subscribed:

- equity instruments, representing the capital of parent companies in which the cash flow that will enable the company to be recovered come from a wide range of assets provided by the various Banks. These securities are recognized in the assets portfolio mandatorily at fair value through profit or loss being valued to market, with valuation released regularly by the mentioned companies whose accounts are audited at the end of each year;
- junior instruments issued by the loan acquiring companies, which are fully provided for to reflect the best estimate of the impairment of the financial assets transferred

The instruments subscribed by novobanco Group represent clear minority positions in the share capital of the parent companies and of its subsidiaries.

In this context, holding no control but being exposed to some of the risks and rewards of ownership, the novobanco Group, in accordance with IFRS 9 3.2.7, performed an analysis of its exposure to the variability of the risks and rewards of the transferred assets before and after the operation, having concluded that it has not substantially retained all the risks and rewards of ownership. Additionally, and considering that it has no control either, it proceeded, in accordance with IFRS 9 3.2.6c (i) with the derecognition of the assets transferred and (ii) the recognition of the assets received in return, as shown in the following table:

(in thousands of Euros)

	Amounts at transfer date							
	Amounts of the assets transferred			Securities subscribed				
	Net assets transferred	Transfer amount	Result of the transfer	Shares (Senior securities)	Junior securities	Total	Impairment	Carrying book value
Up to 31 December 2012								
Fundo Recuperação Turismo, FCR	282 121	282 121	-	256 892	34 906	291 798	(34 906)	256 892
FLIT SICAV	252 866	254 547	1 682	235 318	23 247	258 565	(23 247)	235 318
Discovery Portugal Real Estate Fund	96 196	93 208	(2 988)	96 733	-	96 733	-	96 733
Fundo Vallis Construction Sector	66 272	66 272	-	81 002	21 992	102 994	(21 992)	81 002
Fundo Recuperação, FCR	145 564	149 883	4 319	148 787	36 182	184 970	(23 000)	161 970
Up to 31 December 2013								
Fundo Vallis Construction Sector	18 552	18 552	-	1 606	2 874	4 480	(2 874)	1 606
FLIT SICAV	80 769	80 135	(634)	85 360	-	85 360	-	85 360
Discovery Portugal Real Estate Fund	51 809	45 387	(6 422)	51 955	-	51 955	-	51 955
Fundo Recuperação Turismo, FCR	11 066	11 066	-	-	-	-	-	-
Fundo Recuperação, FCR	52 983	52 963	(20)	726	-	726	-	726
Fundo Reestruturação Empresarial	67 836	67 836	-	99 403	-	99 403	-	99 403
Up to 31 December 2014								
Discovery Portugal Real Estate Fund	73 802	74 240	438	58 238	-	58 238	-	58 238
Fundo Vallis Construction Sector	-	-	-	1 289	314	1 603	(314)	1 289
Fundo Recuperação, FCR	-	-	-	14 565	-	14 565	-	14 565
Fundo Reestruturação Empresarial	5 389	5 389	-	4 078	-	4 078	-	4 078
Fundo Aquarius	108 517	108 481	(36)	104 339	-	104 339	-	104 339
FLIT SICAV	-	-	-	1 500	-	1 500	-	1 500
Up to 31 December 2015								
Fundo Aquarius	24 883	24 753	(130)	30 406	-	30 406	-	30 406
Fundo Recuperação, FCR	1 471	1 471	-	-	-	-	-	-
Discovery Portugal Real Estate Fund	5 348	5 774	427	4 855	-	4 855	-	4 855
Up to 31 December 2016								
Fundo Aquarius	710	602	(108)	600	-	600	-	600
Fundo Vallis Construction Sector	14 156	14 156	-	14 453	-	14 453	-	14 453
Up to 31 December 2017								
Fundo Aquarius	555	470	(86)	624	-	624	-	624
FLIT SICAV	3 261	3 298	37	-	-	-	-	-
Up to 31 December 2018								
Fundo Aquarius	839	644	(194)	644	-	644	-	644
FLIT SICAV	-	-	-	3 348	-	3 348	-	3 348
Fundo Vallis Construction Sector	-	-	-	(1)	-	(1)	-	(1)
Up to 31 December 2019								
Fundo Aquarius	376	332	(44)	507	-	507	-	507
Up to 31 December 2020								
Fundo Aquarius	1 947	1 488	(458)	1 313	-	1 313	-	1 313
Up to 31 December 2021								
Fundo Aquarius	6 628	6 625	(3)	7 000	-	7 000	-	7 000
	1 373 917	**1 369 695**	**(4 222)**	**1 305 541**	**119 516**	**1 425 057**	**(106 333)**	**1 318 724**

As at 31 December 2021, the Group's total exposure to securities associated with the assignment operations amounted to Euro 524.1 thousand (31 December 2020: Euro 498.8 million). With the adoption of IFRS 9, these securities were transferred from the fair value portfolio through other comprehensive income to the mandatorily measured at fair value through profit or loss, therefore, the balance sheet value presented below already corresponds to the respective fair value, not requiring register an impairment. The detail is as follows:

(in thousands of Euros)

	31.12.2021						31.12.2020					
	Securities		Shareholder loans or supplementary capital			Unrealised Subscribed Capital	Securities		Shareholder loans or supplementary capital			Unrealised Subscribed Capital
	Participation units subscribed (no.)	Book value	Gross amount	Impairment	Net amount		Participation units subscribed (no.)	Book value	Gross amount	Impairment	Net amount	
Fundo Recuperação Turismo, FCR	261 656	87 288	34 824	(34 824)	-	12 796	260 683	86 316	34 824	(34 824)	-	13 769
FLIT SICAV	282 793	158 486	14 900	(14 900)	-	12 423	281 191	157 084	14 900	(14 900)	-	13 826
Discovery Portugal Real Estate Fund	259 527	129 037	-	-	-	3 950	258 440	116 479	-	-	-	5 232
Fundo Recuperação, FCR	206 805	46 960	-	-	-	18 034	206 805	44 873	-	-	-	18 543
Fundo Reestruturação Empresarial	80 719	29 886	-	-	-	5 680	117 051	22 436	-	-	-	6 113
Fundo Aquarius	167 602	72 401	-	-	-	21 073	160 586	71 631	-	-	-	19 519
	1 259 102	**524 058**	**49 724**	**(49 724)**	**-**	**73 956**	**1 284 756**	**498 819**	**49 724**	**(49 724)**	**-**	**77 002**

The Group also maintains an indirect exposure to the financial assets assigned, within the scope of a minority interest in the pool of all assets assigned by other financial institutions, through the shares of the subscribed parent companies. However, there was an operation with the company FLITPTREL VIII in which, due to the fact that the acquiring company substantially holds assets assigned by the Group and considering the holding of junior securities, the variability test resulted in a substantial exposure to all risks and benefits. In this circumstance, the operation, in the initial amount of Euro 60 million, remained recognized in the balance sheet under the heading of loans to customers.

NOTE 44 – RISK MANAGEMENT

novobanco, S.A., (www.novobanco.pt) "institutional" area in the website presents the information directed to investors which complements the available information presented in this document, namely, novobanco, S.A., Market Discipline Report 2020 which addresses the public disclosure obligations as defined in Part VIII of the Regulation n.º 575/2013 of the European Parliament and the Council at 26 of July, 2013 (CRR) and EBA guidelines transposed to the Portuguese legislation through the Instruction n.º 5/2018 the Bank of Portugal.

In the case where the information of the present annual report supports the information in the Market Discipline report it is identified through references to this report as systematized in the Annex VI of the Market Discipline Report.

44.1 - Framework

Risk is implicit in the banking business and as such novobanco Group is naturally exposed to several categories of risks arising from external and internal factors, and which arise according to the characteristics of the markets in which the Bank operates and the activities it undertakes.

Thus, the novobanco Group's risk management and control is based on the following premises:

- Independence vis-à-vis the other units of the Group, in particular the risk-taking units;
- Universality by application in the whole novobanco Group;
- Integrality of the risk culture, through a holistic vision and anticipation of its materialization;
- 3 Lines of defense model, with the objective of detecting, measuring, monitoring and controlling in an adequate manner the materially relevant risks to which the Novobanco Group is subject to. This model implies that all employees, in their sphere of action, are responsible for risk management and control.

44.2 Governance and risk management structure

Risk Management, vital to the development of the novobanco Group's activity, is centralized in the Risk Management Function, comprising the Global Risk Department (Departamento de Risco Global (DRG)) and the Rating Department (Departamento de Rating (DRT)), which holistically defines the principles of risk management and control, in close coordination with the other second line units of novobanco Group, as well as with the Internal Audit Department.

All materially relevant risks are reported to the respective Management and Supervisory Bodies (EBD, GSB and both Risk Committees and specialized Committees), which assume responsibility for supervising, monitoring, assessing and defining the Risk Appetite and the control principles implemented.

Operationally, DRG centralizes the Risk Management Function of novobanco Group, namely the responsibilities inherent to the function, supervising the various materially relevant financial institutions of the Group, ensuring independence from the business areas.

novobanco Group Head of the Risk Management Function is the head of the DRG. In order to ensure greater efficiency in liaison with the DRG, a local Risk Officer has been appointed in each relevant entity of the novobanco Group. The DRG intervention is direct or of coordination in articulation with the units that assume the local Risk Management Function.

The risks identified as relevant and material are quantified as part of the Internal Capital Adequacy Self-Assessment (ICAAP) exercise, the most relevant of which are:

- Credit risk;
- Market risk;

- Liquidity risk;
- Operational risk.

The Risk Management Function also continuously monitors and assesses ESG (Environmental, Social and Governance) Risks in close coordination with the Sustainability area, which contributes specific knowledge to the understanding of climate and environmental risk factors and social risk factors. ESG factors, refer to climate and environmental, social or governance issues that may have a positive or negative impact on the financial performance or solvency of an entity, institution or person.

The following are the main risk management guidelines for the risks identified above:

- **credit risk:** the management and control of this type of risk is supported by the use of an internal system of risk identification, assessment and quantification, as well as internal processes for attributing ratings and scorings to portfolios and their continuous monitoring in specific decision forums;
- **market risk:** existence of a specialized team that centralizes the management and control of market risk and balance sheet interest rate risk (IRRBB) of the Group, in line with the regulations and good risk practices;
- **liquidity risk:** based on the measurement of liquidity outflows from contractual and contingent positions in normal or stressed situations, the management and control of this risk consists, on the one hand, in determining the size of the pool of liquidity available at each moment, and on the other hand, in planning for medium and long term stable financing sources;
- **operational risk:** operational risk policies are defined by a specialized DRG team, with other units such as the Compliance department and the Information security office issuing specific risk policies. The effectiveness of the methodologies for the identification and control of operational risk is guaranteed through the actions of the operational risk management representatives appointed for each organic unit, who promote the risk culture in the first line of defense in continuous collaboration with the DRG.

44.3 Credit Risk

Credit risk results from the possibility of financial losses arising from the default of the client or counterparty in relation to the contractual obligations established with the Group within the scope of its credit activity. Credit risk is essentially present in traditional banking products - loans, guarantees and other contingent liabilities and derivatives. In credit default swaps (CDS), the net exposure between protection seller and buyer positions on each entity underlying the transactions, constitutes credit risk for novobanco Group. CDS are recorded at their fair value in accordance with the accounting policy described in Note 7.10.6.

A permanent management of the credit portfolios is carried out, which favors interaction between the various teams involved in risk management throughout the successive stages of the life of the credit process. This approach is complemented by the introduction of continuous improvements both in terms of methodologies and tools for risk assessment and control, as well as in terms of procedures and decision circuits.
The monitoring of the Group's credit risk profile, namely the evolution of credit exposures and monitoring of credit losses, is carried out regularly by the Risk Committee. The compliance with approved credit limits and the correct functioning of the mechanisms associated with the approval of credit lines within the scope of the current activity of the commercial areas are also subject to regular analysis.

Main events in 2021

The most relevant events during 2021 and with an impact on credit risk management policies and procedures management policies and procedures consisted in the incorporation of specific adjustments to ensure an adequate level of impairments on the universe of customers who ended the moratorium in the second half of 2021.

In view of the COVID pandemic and the extension of its impact through 2021, it became imperative to ensure that the level of provisioning level would remain adequate in a post-COVID context. The level of uncertainty remains high regarding the economic recovery as well as the duration of the effects of the pandemic on the sectors of economic activity most affected by the pandemic. This uncertainty became even more pressing on the universe that benefited from moratoria, namely on the ability to fully resume and maintain compliance with their credit obligations after the end of these moratoria.

For this purpose, several quantitative and qualitative criteria were identified in addition to those observed in the segmentation and segmentation and staging rules in force in the impairment model and applied them to the universe of exposures that benefited from moratoria until the second half of 2021. By verifying these criteria, these exposures could see their original stage worsened and/or their originally calculated and/or the risk notation itself considered for the purpose of calculating impairment.

Therefore, novobanco defined a set of 8 additional criteria for the universe of exposures that benefited from the moratorium, on which it considered, for purposes of calculating impairment at December 2021, a stage and/or a level of risk rating aggravated risk.

These criteria and the consequent adjustment are systematized in the table below:

Nº	Criteria	Adjustment
1	Debtors with credit more than 45 days overdue	Stage 3 Classification
2	Individuals with signs of Unlikely to Pay	Stage 3 Classification
3	Small companies with signs of Unlikely to Pay	Stage 3 Classification
4	Non-rated companies	Stage 2 rating and assigned the worst risk rating
5	Debtors with restructured credit due to financial difficulties	Risk rating downgrade
6	Individuals with signs of significant deterioration of credit risk	Stage 2 classification and risk rating downgrade
7	Debtors with a current rating at the threshold of significant deterioration of credit risk	Stage 2 Classification
8	Small businesses with proposed downgrade of rating	Risk rating downgrade

The first three adjustments aimed to capture situations of debtors that, having benefited from a prolonged period of moratorium and consequent increase in liquidity, presented defaults after this period and/or reduced financial capacity to resume their obligations.

The remaining adjustments reflect situations of debtors who, also having benefited from a prolonged period of moratorium and consequent increase in liquidity, present less serious signs than the first three groups. Not being situations of default, they are situations of debtors who show signs of difficulty in fully complying with their responsibilities. their responsibilities. As it is not possible to translate these difficulties into the Customer's final rating, the adjustment applied for purposes of calculating impairment is to worsen the stage to 2 and/or consider an aggravated risk notation than the current one.

The adjustments systematized above were incorporated into the collective impairment calculation as post-model adjustments and simultaneously with the update of the calculation support scenarios, with the corresponding update of the forward-looking risk.

The exclusive impact of these adjustments was an increase in impairments of Euro16 million. This impact was partially mitigated by the update of the macroeconomic scenarios that support the collective impairment calculation through the forward-looking parameters.

This update occurred in 2021 and the macroeconomic scenarios were taken into account as described in Note 44 - Activity Risk Management.

42.3.1 Credit Risk Exposure

novobanco Group's maximum credit risk exposure is analyzed as follows:

(in thousands of Euros)

	31.12.2021			31.12.2020		
	Gross Value	Impairment	Net Value	Gross Value	Impairment	Net Value
Deposits with and loans and advances to banks	506 789	(1 113)	505 676	617 390	(250 138)	367 252
Derivatives for trading and fair value option derivatives	263 199	-	263 199	388 257	-	388 257
Securities held for trading	114 465	-	114 465	267 016	-	267 016
Securities at fair value through profit/loss - mandatory	54 960	-	54 960	160 184	-	160 184
Securities at fair value through other comprehensive income	7 160 616	(3 716)	7 156 900	7 842 835	(3 690)	7 839 145
Securities at amortised cost	2 582 558	(246 997)	2 335 561	2 432 313	(201 237)	2 231 076
Loans and advances to customers	24 932 453	(1 247 917)	23 684 536	25 216 809	(1 599 775)	23 617 034
Derivatives - hedge accounting	19 639	-	19 639	12 972	-	12 972
Other assets	923 866	(182 499)	741 367	960 708	(202 456)	758 252
Guarantees and standby letters provided	2 234 243	(79 599)	2 154 644	2 826 190	(92 163)	2 734 027
Documentary credits	402 332	-	402 332	410 292	-	410 292
Irrevocable commitments	5 845 257	(12 737)	5 832 520	7 020 935	(9 823)	7 011 112
Credit risk associated with the credit derivatives' reference entities	-	-	-	4 798	-	4 798
	45 040 377	**(1 774 578)**	**43 265 799**	**48 160 699**	**(2 359 282)**	**45 801 417**

For financial assets in the balance sheet, the maximum exposure to credit risk is represented by the accounting book value, net of impairment. For the off-balance sheet elements, the maximum exposure of the guarantees is the maximum amount that the Group would have to pay if the guarantees were executed. For loan commitments and other credit-related commitments of an irrevocable nature, the maximum exposure is the total amount of the commitments assumed.

The Group calculates impairment, on a collective or individual basis in accordance with the accounting policy as described in Note 7.16. In the cases where the value of the collateral, net of haircuts (taking into account the type of collateral), equals or exceeds the exposure, the individual impairment may be nil. Hence, novobanco Group does not have any overdue financial assets for which it has not performed a review regarding their recoverability and the subsequent impairment recognition, when necessary.

44.3.2 Impairment Models scenarios

The exercise of build the base and alternative macroeconomic scenarios for the Portuguese economy is based on a combination of econometric forecasts, information on forecasts from other external institutions and application of subjective expert judgment.

In the first component, GDP growth is estimated through estimates for the growth of expenditure components, obtaining GDP through the formula GDP = Consumption + Investment + Exports - Imports. The econometric specifications chosen are those that, after testing different alternatives, generate the best result.

The econometric estimates thus obtained are then weighted with forecasts from external institutions, according to the principle that the combination of different projections tends to be more accurate than just a forecast (the risk of errors and bias associated with specific methods and variables is minimized).

The forecasts for prices (consume and real estate) and unemployment follow a similar methodology: own forecasts based on an estimated model, weighted with forecasts from external institutions, if available. In a base scenario, the projections for interest rates start from market expectations (provided by Bloomberg), with possible adjustments in accordance with the principles defined above, if considered appropriate (weighting by expert judgment and forecasts from external institutions). The alternative scenarios are based on the historical observation of deviations from the trend in GDP behavior (cost and contraction cycles), the reference of EBA recommendations for extreme adverse scenarios, the stylized facts of economic cycles, with respect to the components of expenditure, prices, unemployment, etc. and estimates.

Thus, when revising / updating the scenarios, the respective probabilities of execution are also reviewed. Once the scenarios are updated, the values of the risk parameters are updated for later consideration in the scope of the Impairment calculation. The final impairment calculated will thus result from the sum of the impairment value of each scenario, weighted by the respective probability of execution.

Currently, 3 scenarios are considered for the calculation of impairment on a collective basis: base case, downside case (or adverse) and more favourable case. The scenarios considered and the respective evolution of the main macroeconomic variables are described in the tables below:

A - Base Scenario, with a relative weight of 60%.

	Unit	2019	2020	2021	2022	2023	2024
GDP	Real growth %	2.7	-8.4	4.5	5.3	2.4	2.2
Private Consumption	Real growth %	3.0	-5.5	4.5	4.6	2.3	2.1
Government Expenditure	Real growth %	2.1	0.4	4.3	1.8	0.3	0.3
Investment	Real growth %	3.2	-5.7	5.3	8.2	5.6	4.9
Exports	Real growth %	4.1	-18.6	9.3	10.1	4.9	4.5
Imports	Real growth %	4.9	-12.1	9.5	8.5	5.1	4.7
Domestic Demand	Real growth %	3.1	-5.6	4.6	4.8	2.6	2.3
GDP	EUR mn (real)	203 854	186 645	194 971	205 317	210 330	214 962
Private Consumption	EUR mn (real)	132 018	122 677	128 197	134 095	137 179	140 059
Government Expenditure	EUR mn (real)	33 772	33 918	35 376	36 013	36 121	36 230
Investment	EUR mn (real)	36 795	34 680	36 518	39 513	41 725	43 770
Exports	EUR mn (real)	88 102	71 683	78 350	86 263	90 490	94 562
Imports	EUR mn (real)	86 751	76 229	83 471	90 566	95 185	99 658
Domestic Demand	EUR mn (real)	202 585	191 275	200 092	209 620	215 025	220 059
Net External Demand	EUR mn (real)	1 351	-4 546	-5 121	-4 303	-4 695	-5 097
Prices							
CPI	%	0.3	0.0	1.2	1.9	1.6	1.7
Real Estate (Residential)	%	9.6	8.4	6.6	3.7	2.5	2.0
Real Estate (Commercial)	%	1.9	1.7	1.5	2.3	1.6	1.4
Equity prices (incremental change)	%	10.2	-6.1	15.0	0.0	0.0	0.0
Unemployment	% labour force	6.6	7.0	6.9	6.6	6.4	6.3
Households Disposable Income	EUR mn (nominal)	147 925	146 873	154 364	160 692	165 192	169 322
Households Savings	EUR mn (nominal)	10 663	18 820	17 131	14 420	13 012	11 149
Households Savings Rate	% Disp Income	7.2	12.8	11.1	9.0	7.9	6.6
Household Investment (GFCF)	EUR mn (nominal)	8 472	8 224	8 553	8 904	9 171	9 372
Non Fin Corporations Gross Disposable Income (Savings)	EUR mn (nominal)	19 452	16 062	20 302	21 541	22 381	23 209
Non Financial Corporations Investment	EUR mn (nominal)	26 905	24 142	26 508	28 337	29 612	30 500
Capital Transfers - net acquisition/disposal of assets (non-financial & non-produced)	EUR mn (nominal)	352	2 398	2 800	4 900	4 900	4 100
Non Financial Corporations Financing Capacity	EUR mn (nominal)	-7 101	-5 682	-3 406	-1 896	-2 331	-3 191
	Unit	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
Euribor (annual average)							
3-month	%	-0.36	-0.43	-0.54	-0.43	-0.17	0.05
end-of-period	*%*	*-0.38*	*-0.55*	*-0.50*	*-0.35*	*0.01*	*0.09*
6-month	%	-0.30	-0.37	-0.51	-0.41	-0.15	0.07
end-of-period	*%*	*-0.32*	*-0.53*	*-0.48*	*-0.33*	*0.03*	*0.11*
12-month	%	-0.22	-0.31	-0.45	-0.37	-0.13	0.09
end-of-period	*%*	*-0.25*	*-0.50*	*-0.42*	*-0.31*	*0.05*	*0.13*
Sovereign Yields (average)							
Bund 10Y	%	-0.21	-0.47	-0.23	-0.03	0.11	0.21
end-of-period	*%*	*-0.19*	*-0.57*	*-0.10*	*0.05*	*0.17*	*0.24*
PGB 10Y	%	0.77	0.42	0.30	0.71	1.01	1.16
end-of-period	*%*	*0.44*	*0.03*	*0.52*	*0.90*	*1.12*	*1.19*
PGB 2Y	%	-0.42	-0.42	-0.57	-0.31	0.00	0.13
end-of-period	*%*	*-0.55*	*-0.73*	*-0.51*	*-0.10*	*0.10*	*0.15*
10Y PGB-Bund spread							
Annual Average	bps	98	89	53	74	90	95
end-of-period	*bps*	*63*	*60*	*62*	*85*	*95*	*95*
10Y-2Y PGB Spread							
Annual Average	bps	119	84	87	102	101	103
end-of-period	*bps*	*99*	*76*	*103*	*100*	*102*	*104*

The baseline macroeconomic scenario translates into a projection of the Gross Domestic Product to fully recover in 2022 the level it had in 2019, continuing with moderate growth in 2023 and 2024. Regarding reference rates, the EURIBOR would remain with negative values in 2022, although projecting with signs of returning to positive values at the end of 2023, a fact that would benefit the results of the financial sector - if low values of cost of risk persist.

B - Less favourable / adverse scenario, with a relative weight of 30%

	Unit	2019	2020	2021	2022	2023	2024
GDP	Real growth %	2.7	-8.4	4.5	-4.0	-1.6	0.5
Private Consumption	Real growth %	3.0	-5.5	4.5	-4.4	-1.9	1.0
Government Expenditure	Real growth %	2.1	0.4	4.3	0.8	0.6	0.3
Investment	Real growth %	3.2	-5.7	5.3	-3.7	-0.6	1.6
Exports	Real growth %	4.1	-18.6	9.3	-14.3	-8.8	4.5
Imports	Real growth %	4.9	-12.1	9.5	-12.1	-7.2	5.4
Domestic Demand	Real growth %	3.1	-5.6	4.6	-3.4	-1.2	1.0
GDP	EUR mn (real)	203 854	186 645	194 971	187 158	184 206	185 154
Private Consumption	EUR mn (real)	132 018	122 677	128 197	122 557	120 228	121 430
Government Expenditure	EUR mn (real)	33 772	33 918	35 376	35 659	35 873	35 981
Investment	EUR mn (real)	36 795	34 680	36 518	35 167	34 956	35 515
Exports	EUR mn (real)	88 102	71 683	78 350	67 146	61 237	63 992
Imports	EUR mn (real)	86 751	76 229	83 471	73 371	68 088	71 765
Domestic Demand	EUR mn (real)	202 585	191 275	200 092	193 383	191 058	192 927
Net External Demand	EUR mn (real)	1 351	-4 546	-5 121	-6 225	-6 851	-7 772
Prices							
CPI	%	0.3	0.0	1.4	1.6	-0.4	-0.1
Real Estate (Residential)	%	9.6	8.4	6.6	-11.5	-8.5	-4.3
Real Estate (Commercial)	%	1.9	1.7	1.5	-13.0	-9.6	-4.9
Equity prices (incremental change)	%	10.2	-6.1	15.0	-50.0	-45.0	-35.0
Unemployment	% labour force	6.6	7.0	6.9	10.3	11.6	11.9
Households Disposable Income	EUR mn (nominal)	147 925	146 873	154 364	150 813	149 607	150 953
Households Savings	EUR mn (nominal)	10 663	18 820	16 860	17 257	19 112	19 285
Households Savings Rate	% Disp Income	7.2	12.8	10.9	11.4	12.8	12.8
Household Investment (GFCF)	EUR mn (nominal)	8 472	8 224	8 553	8 065	7 832	7 879
Non Fin Corporations Gross Disposable Income (Savings)	EUR mn (nominal)	19 452	16 062	20 302	19 531	19 257	19 546
Non Financial Corporations Investment	EUR mn (nominal)	26 905	24 142	26 508	24 228	23 308	23 680
Capital Transfers - net acquisition/disposal of assets (non-financial & non-produced)	EUR mn (nominal)	352	2 398	2 800	2 400	2 200	2 200
Non Financial Corporations Financing Capacity	EUR mn (nominal)	-7 101	-5 682	-3 406	-2 297	-1 850	-1 934
	% GDP	-3.3	-2.8	-1.6	-1.1	-0.9	-0.9
	Unit	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
Euribor (annual average)							
3-month	%	-0.36	-0.43	-0.54	-0.55	-0.60	-0.58
end-of-period	*%*	*-0.38*	*-0.55*	*-0.50*	*-0.60*	*-0.60*	*-0.55*
6-month	%	-0.30	-0.37	-0.51	-0.53	-0.58	-0.55
end-of-period	*%*	*-0.32*	*-0.53*	*-0.48*	*-0.58*	*-0.58*	*-0.52*
12-month	%	-0.22	-0.31	-0.45	-0.49	-0.55	-0.53
end-of-period	*%*	*-0.25*	*-0.50*	*-0.42*	*-0.55*	*-0.55*	*-0.50*
Sovereign Yields (average)							
Bund 10Y	%	-0.21	-0.47	-0.23	-0.43	-0.73	-0.70
PGB 10Y	%	0.77	0.42	0.30	0.94	1.35	1.33
PGB 2Y	%	-0.42	-0.42	-0.57	0.02	0.53	0.50
10Y PGB-Bund spread							
Annual Average	bps	98	89	53	136	208	203
10Y-2Y PGB Spread							
Annual Average	bps	119	84	87	92	83	83

The less favourable - or adverse - macroeconomic scenario considers that the effects of the COVID pandemic will still be felt in 2022, leading to a recession that translates into a 4% drop in Gross Domestic Product in 2022, registering tenuous growth in this variable only in 2024. Regarding reference rates, the EURIBOR would remain with negative values in all years of the projection.

C - Most favourable scenario, with a relative weight of 10%

	Unit	2019	2020	2021	2022	2023	2024
GDP	Real growth %	2.7	-8.4	4.7	6.7	3.9	3.2
Private Consumption	Real growth %	3.0	-5.5	5.1	6.3	3.5	2.8
Government Expenditure	Real growth %	2.1	0.4	4.6	0.5	0.4	0.4
Investment	Real growth %	3.2	-5.7	4.9	14.3	9.2	7.1
Exports	Real growth %	4.1	-18.6	9.5	20.4	21.1	13.2
Imports	Real growth %	4.9	-12.1	10.1	19.6	20.6	12.8
Domestic Demand	Real growth %	3.1	-5.6	5.0	6.7	4.1	3.3
GDP	EUR mn (real)	203 854	186 645	195 356	208 421	216 449	223 399
Private Consumption	EUR mn (real)	132 018	122 677	128 934	137 056	141 853	145 825
Government Expenditure	EUR mn (real)	33 772	33 918	35 478	35 656	35 798	35 941
Investment	EUR mn (real)	36 795	34 680	36 379	41 582	45 407	48 631
Exports	EUR mn (real)	88 102	71 683	78 493	94 505	114 446	129 553
Imports	EUR mn (real)	86 751	76 229	83 928	100 378	121 056	136 551
Domestic Demand	EUR mn (real)	202 585	191 275	200 791	214 294	223 059	230 398
Net External Demand	EUR mn (real)	1 351	-4 546	-5 435	-5 873	-6 610	-6 998
Prices							
CPI	%	0.3	0.0	1.3	1.4	1.7	1.9
Real Estate (Residential)	%	9.6	8.4	8.3	4.9	4.0	3.6
Real Estate (Commercial)	%	1.9	1.7	1.5	1.8	1.6	1.4
Equity prices (incremental change)	%	10.2	-6.1	13.7	15.0	20.0	25.0
Unemployment	% labour force	6.6	7.0	6.6	5.7	5.5	5.3
Households Disposable Income	EUR mn (nominal)	147 925	146 873	154 364	163 625	170 170	175 616
Households Savings	EUR mn (nominal)	10 663	18 820	16 343	14 563	13 268	11 094
Households Savings Rate	% Disp Income	7.2	12.8	10.6	8.9	7.8	6.3
Household Investment (GFCF)	EUR mn (nominal)	8 472	8 224	8 553	8 981	9 385	9 751
Non Fin Corporations Gross Disposable Income (Savings)	EUR mn (nominal)	19 452	16 062	20 302	21 987	23 571	24 820
Non Financial Corporations Investment	EUR mn (nominal)	26 905	24 142	26 508	28 894	30 772	32 495
Capital Transfers - net acquisition/disposal of assets (non-financial & non-produced)	EUR mn (nominal)	352	2 398	2 800	2 900	2 900	2 800
Non Financial Corporations Financing Capacity	EUR mn (nominal)	-7 101	-5 682	-3 406	-4 006	-4 301	-4 875
	% GDP	-3.3	-2.8	-1.6	-1.7	-1.8	-1.9
	Unit	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
Euribor (annual average)							
3-month	%	-0.36	-0.43	-0.55	-0.36	0.10	0.64
end-of-period	*%*	*-0.38*	*-0.55*	*-0.57*	*-0.15*	*0.35*	*0.93*
6-month	%	-0.30	-0.37	-0.52	-0.34	0.12	0.67
end-of-period	*%*	*-0.32*	*-0.53*	*-0.55*	*-0.13*	*0.37*	*0.96*
12-month	%	-0.22	-0.31	-0.49	-0.25	0.21	0.74
end-of-period	*%*	*-0.25*	*-0.50*	*-0.50*	*0.00*	*0.42*	*1.05*
Sovereign Yields (average)							
Bund 10Y	%	-0.21	-0.47	-0.31	0.09	0.58	1.09
end-of-period	*%*	*-0.19*	*-0.57*	*-0.18*	*0.35*	*0.80*	*1.38*
PGB 10Y	%	0.77	0.42	0.29	0.74	1.18	1.57
end-of-period	*%*	*0.44*	*0.03*	*0.47*	*1.00*	*1.35*	*1.78*
PGB 2Y	%	-0.42	-0.42	-0.65	-0.31	0.21	0.56
end-of-period	*%*	*-0.55*	*-0.73*	*-0.66*	*0.05*	*0.37*	*0.74*
10Y PGB-Bund spread							
Annual Average	bps	98	89	60	65	60	48
end-of-period	*bps*	*63*	*60*	*65*	*65*	*55*	*40*
10Y-2Y PGB Spread							
Annual Average	bps	119	84	94	104	97	101
end-of-period	*bps*	*99*	*76*	*113*	*95*	*98*	*104*

The most favourable macroeconomic scenario is similar to the baseline scenario, differing in general by considering that the recovery of the economy will be at higher levels. In this scenario the Gross Domestic Product projection for 2022 would reach 6.7% and have a growth above 3% in 2023 and 2024. Regarding reference rates, the EURIBOR would remain at negative values in 2022, also returning to positive values at the end of 2023.

44.3.3 Impairment Models

As at 31 December 2021 and 2020, the detail of the amount of gross credit exposure and impairment assessed individually and collectively, by segment was as follows:

(in thousands of Euros)

	31.12.2021					
	Individual Assessment [1]		Collective Assessment [2]		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	1 329 469	643 005	12 384 556	369 675	13 714 025	1 012 680
Mortgage loans	3 138	155	9 808 875	55 865	9 812 013	56 020
Consumer and other loans	148 390	132 298	1 258 025	46 919	1 406 415	179 217
Total	**1 480 997**	**775 458**	**23 451 456**	**472 459**	**24 932 453**	**1 247 917**

[1] Loans and advances for which the final impairment was determined and approved by the Impairment Committee

[2] Loans and advances for which the final impairment was determined according to the calculation rules of the collective impairment model

(in thousands of Euros)

	31.12.2020					
	Individual Assessment [1]		Collective Assessment [2]		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	1 667 521	951 926	12 205 537	393 094	13 873 058	1 345 020
Mortgage loans	4 551	220	10 005 902	65 625	10 010 453	65 845
Consumer and other loans	155 734	136 305	1 177 564	52 605	1 333 298	188 910
Total	**1 827 806**	**1 088 451**	**23 389 003**	**511 324**	**25 216 809**	**1 599 775**

[1] Loans and advances for which the final impairment was determined and approved by the Impairment Committee

[2] Loans and advances for which the final impairment was determined according to the calculation rules of the collective impairment model

In the case of credits analyzed by the Impairment Committee for which the impairment determined automatically by the Impairment Model has not been changed, they are included and presented in the "Collective assessment".

As at 31 December 2021 and 2020, the analysis of the gross loans and advances to customers' exposure and impairment assessed individually and collectively, by geography, is presented as follows:

(in thousands of Euros)

	31.12.2021					
	Individual Assessment*		Collective Assessment**		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Portugal	1 300 717	683 754	20 969 733	425 794	22 270 450	1 109 548
Spain	58 906	8 008	566 121	13 495	625 027	21 503
United Kingdom	-	-	269 010	3 417	269 010	3 417
France	-	-	309 486	11 831	309 486	11 831
Switzerland	-	-	240 456	1 825	240 456	1 825
Luxembourg	-	-	264 525	2 552	264 525	2 552
Other	121 374	83 696	832 125	13 545	953 499	97 241
Total	**1 480 997**	**775 458**	**23 451 456**	**472 459**	**24 932 453**	**1 247 917**

* Loans and advances which the final impairment was determined and approved by the Impairment Committee

** Loans and advances for which the final impairment was determined according to the calculation rules of the collective impairment model

(in thousands of Euros)

	31.12.2020					
	Individual Assessment*		Collective Assessment**		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Portugal	1 621 724	938 644	21 294 043	471 246	22 915 767	1 409 890
Spain	29 762	17 762	410 771	13 019	440 533	30 781
United Kingdom	-	-	272 723	6 682	272 723	6 682
France	-	-	256 544	3 351	256 544	3 351
Switzerland	-	-	231 385	1 573	231 385	1 573
Luxembourg	-	-	167 956	20	167 956	2 038
Other	176 320	132 045	755 581	13 415	931 901	145 460
Total	**1 827 806**	**1 088 451**	**23 389 003**	**509 306**	**25 216 809**	**1 599 775**

* Loans and advances which the final impairment was determined and approved by the Impairment Committee

** Loans and advances for which the final impairment was determined according to the calculation rules of the collective impairment model

44.3.3.1 Individual Credit Analysis

The Individual Credit Analysis comprises a staging analysis and an individual impairment quantification analysis. The staging analysis is performed for debtors previously classified as stage 1 and stage 2, with the purpose of evaluating the adequacy of the assigned stage with additional information obtained on an individual basis. The individual impairment quantification analysis aims to determine the most appropriate impairment rate for each credit customer, regardless of the amount resulting from the Collective Impairment Model. Clients that have been subject to Individual Analysis, but for which an objective impairment loss was not considered, are again included in the Collective Impairment Model. The Individual Analysis of the selected clients is carried out based on the information provided by the Commercial Structures regarding the client / Group's framework, historical and forecast cash flows (when available) and existing collateral.

The scheme below is illustrative of the individual credit analysis to be carried out for the purpose of concluding on the classification in terms of staging of debtors.

Selection Criteria

Individual Analysis (staging analysis and, when applicable, quantification of individual impairment) should be carried out for the borrowers who:

- Register Stage 3 exposure equal to or greater than Euro 1,000,000;
- Register Stage 2 exposure equal to or greater than Euro 5,000,000;
- Register Stage 2 exposure equal to or greater than Euro 1,000,000 and have no rating assigned;
- Register Stage 1 exposure equal to or greater than Euro 5,000,000 and have no rating assigned;
- Register Stage 1 exposure equal or greater than Euro 25,000,000 (individually significant exposure);
- Fit into the risk segment Financial Holding and liability equal to or greater than 5 million euros;
- Fit into the Financial Holding risk segment and register exposure equal to or greater than Euro 5,000,000;
- Fit into the Real Estate risk segment and register exposure equal to or greater than Euro 5,000,000;
- Are identified by the Committee itself based on another criteria that justify (e.g.; sector of activity);
- In the past, specific impairment has been attributed to them;
- In the face of any new element that may have an impact on the calculation of impairment, be proposed for analysis by one of the stakeholders of the Impairment Committee or by another Body.

The identification of the target customers for Individual Analysis will be updated monthly, in order to contemplate any changes that may occur throughout the year. The Committee analysis of the customers identified in the previous paragraph will be carried out in the month in which:

- The client registers, for the first time, one of the selection criteria for Individual Impairment Analysis, mentioned in the previous paragraph;
- Expiry of the Analysis expiration date;
- Its analysis is requested by one of the participants of the Impairment Committee or by another Body.

The Individual Impairment Analysis can be carried out for individual customers, but should whenever possible consider the Economic Group view of the selected customers.

Rules of Operation

The Individual Analysis of the selected clients is carried out based on the information provided by the Commercial Units regarding the client / Group's framework, historical and forecast cash flows (when available) and existing collateral. For the analysis of the impairment quantification on an individual basis, a scenario is established that is expected to recover credit: through the continuity of the client's business or through the execution of the collateral. If this analysis results in no impairment being necessary, the impairment will be determined by collective analysis, that is, by the collective impairment model (except for cases with objective evidence of loss / Default, in which the final rate will have to be defined).

The Individual Impairment quantification analysis determines, for each period, the best recovery scenario, aligning the commercial strategies defined for the client, with the different recovery possibilities. When, due to lack of information, it is not possible to identify or update the recovery scenario, the previous rate is maintained, and a new date is set for the client's review.

44.3.3.2 Collective Model

In line with the principles set out in accounting standard IFRS9, an entity should use information about past events, current conditions and forecasts of future economic conditions in estimating risk parameters. The historical information should accurately capture current conditions and, when measuring expected credit losses, the maximum period to be considered should be the maximum contractual period. For these reasons, the risk parameters associated with the measurement of losses under the IFRS9 accounting standard are often referred to as point-in-time (PIT) parameters. In particular, regarding the estimation of the PD risk parameter, in line with the requirements of the IRFS9 standard, namely with the provisions of paragraph [B5.5.43], the probability of default (PD) was estimated in a 12-month time horizon, but also in a long perspective, capturing the remaining life cycle, PD Lifetime.

Considering the requirement of measuring losses in a maximum time horizon, it becomes necessary to estimate the PD parameter for different time horizons, greater or equal to 12 months, thus obtaining the so-called "PD term structures", which intends to reflect the PD associated with each contract, containing a certain set of characteristics, for each reference date. The PD lifetime estimated, refers to the conditional marginal probability used in the ECL calculation, representing the probability of default of the next cash flow, while the PD structure is the cumulative probability of default, being used to estimate the PD over a defined time interval, for example, PD term structure 5 years is equivalent to the probability of default over 5 years. In the review exercise carried out, a time horizon was considered for estimating the term structure of the DP from January 2015 to December 2019 (5 years). Since 2020 and 2021 are years where the PD would be underestimated due to the moratorium concessions, the values of PD 2020 and 2021 were estimated according to the application of the forward-looking methodology - described below - based on the results effectively verified in the relevant macroeconomic variables.

In line with the framework for developing the PD risk parameter under IFRS9, the primary approach for obtaining the so-called term structure of PDs is based on the estimation of Hazard curves. The hazard function h (t) also called hazard (failure) rate or mortality force represents the instantaneous death rate of an individual in the time interval t to t+1, knowing that he or she survived until time t. The use of this methodology is justified by the need to include, in the estimation process, survival effects as well as the presence of the maturity effect. This approach was used to estimate the PD parameter for each client (corporate High Default Portfolio) or for each contract (individual portfolio), as a function of the underlying rating/score class.

For low default portfolios, typically without statistical significance in the number of observed defaults that allow the use of statistical methods (such as hazard curves), an alternative approach was used. This approach consists in extrapolating the PD determined and used for capital purposes (IRB), assuming a constant marginal probability but applying an adjustment for ratings below or equal to "b+", as a consequence of the difference between the PD Through the Cycle and the observed Default Rates of the last 5 years, in these ratings versus the others. Additionally, in short term portfolios, with contractual maturities lower than 12 months, the approach followed in the estimation of the PD risk parameter, consisted in calculating the observed annual average default rate and extrapolating it in order to build the PD term structure and the PD lifetime.

Just as important as forecasting Default, is the perception of the loss associated with the contract given a Default event. The loss given default is defined as the maximum loss incurred on an exposure in relation to the amount at risk on the date of default.

The magnitude of the loss will depend on the time of Default, thus the following typologies of parameters are segregated:

1. LGD non-Default - estimated loss parameter applicable to contracts that are not yet in Default;
2. LGD in-Default or Expected Recovery Rate - estimated loss parameter applicable to contracts that are in Default and which depends on the best estimate for the expected loss;

For the purpose of determining the LGD parameter (non-default and TRE), a specific framework was developed and approved that consists of the following methodological steps:

- Determination of the RDS (Reference data Set): in this step, the contracts/clients, with entry into default in line with the new definition (nDoD- historical recovery) from January 2010 to July 2019 were selected.
- Determination of the realized (or observed) LGD: for each class and each of the defined termination states, determine the associated loss amount.
- Estimated LGD determination: for clients/contracts with open positions (incomplete cases), estimate by the defined workout the amount still recoverable (based on historical loss/recovery). For corporate portfolios, the estimation of incomplete cases was done using the chain-ladder method (client view), while for individual portfolios the probabilities/severities method was used (contract view).
- Determination of the ERR: based on the estimated curve (0->workout) determine the expected marginal recovery at each point in time.

- In order to update the LGD and TRE parameters, the following input parameters were also updated: Haircut relative to collateral; Update rate for each portfolio; Cost model, including direct and indirect costs; Update of the workout period and its adaptation to the current and future strategy of the collections process, for each estimation segment.

The incorporation of forward looking information was done through macroeconomic models, which estimate the evolution of risk parameters through the evolution of macroeconomic variables. Four PD models were developed: Large and Medium-Sized Enterprises, Small Enterprises and Start-ups, Home Loans and Other Consumer Credit, and three LGD models: Home Loans, Consumer Credit and Corporate Credit.

These models are based, on the one hand, on the historical default series and, on the other hand, on the historical series of the main macroeconomic variables (GDP, inflation, interest rate, unemployment rate and house prices). Historical quarterly data since 2010 were used.

Regarding the projection models of PD and LGD housing segment, the first step consisted in the multivariate analysis of the explanatory variables, for this purpose the following variables were used: GDP, unemployment rate, inflation rate, residential real estate market price growth and inflation rate. On the other hand, the historical default series were transformed using the logit function in order to ensure that the projections have values between 0 and 1, even in extremely adverse scenarios.

Next, linear regression modeling was carried out considering 3 explanatory variables, with the objective of determining the regression that best explains the evolution of the risk parameter.

The choice of the final model depends on the economic sense and its statistical performance. To determine the statistical performance of the models, the following indicators were taken into account:

- R2: which indicates what part of the evolution of the risk parameter is explained by the explanatory variables, that is, the explanatory power of the model;
- P-value of the explanatory variables: which indicates whether the explanatory variable in question is significant in explaining the evolution of the risk parameter;
- Variance inflation factors (VIF): which analyzes whether the explanatory variables are correlated. If the variable has a value greater than 10 it is considered to have a high correlation with the other variables, i.e., only models with VIFs less than 10 are considered.
- Normality of the residuals, which checks whether the model's residuals are normally distributed, using the Q-Q plot and Shapiro-Wilk tests;
- Homoscedasticity: which seeks to demonstrate that the variance of errors is constant, since it is one of the assumptions of modeling through linear regression, based on a regression of the risk parameter with its residues, ensuring that this same regression has a p-value greater than 5%;
- Self-correlation of errors: through the Durbin-Watson test it is assured that the result is between 1.5 and 2.5.

To correct auto-correlation problems of the errors, the ARIMA (autoregressive integrated moving average model) model was used and again tested the performance of the final model, through the Durbin-Watson test, after the auto-correlation correction.

Regarding the LGD Individual Credit projection model, although the aforementioned methodology was followed, the results obtained proved to be counterintuitive, namely in terms of the economic interpretation of the variables versus the statistical results. For this reason, all the models developed were rejected, and a future change similar to that projected for the CH segment was assumed for this segment (based on the model developed, whose results, in addition to being statistically significant, are also interpretable from an economic point of view), considering the correlation between these segments of households. As regards the forward looking models within the scope of Corporate LGD, since the projection model was considered to be adequate both in the variables used and in its interpretation, only the macroeconomic series were updated and the projection was updated accordingly.

44.3.3.3 Collective analysis adjustments to the automatic result of the model

After processing the automatic impairment calculation and validating the consistency of the results obtained, all situations that may need an adjustment to the calculated impairment value are assessed. These adjustments are reflected, whenever possible, directly in the exposures.

When this is not possible, the calculated impairment value is recorded without being allocated to specific exposures and, for that purpose, the stage and the type of credit to which it refers are associated. Having the prerogative to ensure that all impairment is allocated to specific exposures, these impairment amounts initially constituted in the unallocated form will, once conditions exist, be fully distributed over the exposures in which their allocation is determined.

In terms of the governance model, both adjustments to specific exposures and impairment amounts constituted in the unallocated form must be validated and supported by an approval by a competent body, which, as a rule, will be the Extended Impairment Committee.

With the exception of the adjustments already described which were made on the universe that benefited from the moratorium in 2021, and whose impact we estimated in an impairment increase of Euro 16 million, the remaining adjustments that are made result mainly from the need for data review / correction. Therefore, most of the adjustments made in 2021 reflect the application of the collective impairment calculation rules but with corrected input data.

44.3.4 Credit Risk Monitoring

44.3.4.1 Internal rating models for Corporates, Institutions and shares

Regarding the rating models for corporate portfolios, different approaches are adopted depending on the size and sector of activity of the clients. Specific models are also used, adapted to loan operations of project finance, acquisition finance, object finance, commodity finance and real estate development finance.

Below is a summary table on the types of risk models adopted in the internal assignment of credit ratings:

	Segmentation criteria	Model type	Description
Expert Judgement ↑	***Sector, Size, Product*** → Large enterprises → Financial institutions → Municipalities → Institucional → Local and regional administrations → Real estate (Investment/ Promotion) → Acquisition Finance → Project Finance → Object Finance → Commodity Finance	Template	Ratings atributed by teams of analyst, using specific models by sector (templates) and financial and qualitative information.
	Medium enterprises	Semi-automatic	Rating model based in financial, qualitative and behavioral information, validated by analysis.
	Small enterprises	Automatic	Rating model based in financial, qualitative and behavioral information.
↓ ***Statistical***	Start-Up's and individual entrepreneurs	Automatic	Rating model based in qualitative and behavioral information.

The Bank's Rating Department has a Rating Model for the following segments: Start-ups; Individual Entrepreneurs (ENIs); Small business; Medium-sized companies; Big companies; Real Estate and Real Estate Income; Holding Large Company; Financial Institution; Municipalities and Institutional; Sovereign; Project Finance; Object, Commodity and Acquisition Finance; Financial Holding.

The segments for which rating models are not available are:

- Insurance and Pension Funds;
- Churches, political parties, and non-profit associations with a turnover of less than Euro 500 thousand.

Regarding the credit portfolios of Large Companies, Financial Institutions, Institutional, Local and Regional Administrations and Specialized Loans - namely Project Finance, Object Finance, Commodity Finance and Acquisition Finance - the credit ratings are assigned by the novobanco's Rating representation. This structure is made up of 7 multisectoral teams that comprise a team leader and several specialized technical analysts. The attribution of internal risk ratings by this team to these risk segments, classified as low default portfolios, is based on the use of "expert-based" rating models (templates) that are based on qualitative and quantitative variables, strongly correlated with the sector or sectors of activity in which the clients under analysis operate. With the exception of assigning a rating to specialized loans, the methodology used by the Rating representation is also governed by a risk analysis at the level of the maximum consolidation perimeter and by the identification of the status of each company in the respective economic group. The internal credit ratings are validated daily in a Rating Committee composed of members of the Rating Department's Management and the various specialized teams.

For the medium-sized companies' segment, statistical rating models are used, which combine financial data with qualitative and behavioral information. However, the publication of credit ratings requires the execution of a previous validation process that is carried out by a technical team of risk analysts, who also take into account behavioral variables. In addition to rating, these teams also monitor the customers' loan portfolio of novobanco through the preparation of risk analysis reports, as provided for in internal regulations, in accordance with the current responsibilities / customer rating binomial, which may include specific recommendations on the credit relationship with a given customer, as well as technical advice on investment support operations, restructuring, or other operations subject to credit risk.

For the business segment, statistical scoring models are also used which have, in addition to financial and qualitative information, the behavioral variables of the companies and the partner(s) in the calculation of credit ratings.

There are also implemented scoring models specifically aimed at quantifying the risk of start-ups (companies established less than 2 years ago) and individual entrepreneurs (ENI). These customers together with the small companies, depending on the exposure value, are included in the regulatory retail portfolios.

Finally, for companies in the real estate sector (companies dedicated to the activity of real estate promotion and investment, especially small and medium-sized companies), taking into account their specificities, the respective ratings are assigned by a specialized central team, based on use of specific models that combine the use of quantitative and technical variables (real estate appraisals carried out by specialized offices), as well as qualitative and behavioral variables.

With regard to exposures equated to shares held by the novobanco Group, directly or indirectly through the holding of investment funds, as well as shareholders loans and supplementary capital contributions, all included in the risk class of shares for the purposes of calculating credit risk weighted assets, they are classified in the various risk segments according to the characteristics of their issuers or borrowers, following the segmentation criteria presented above. These segmentation criteria determine the type of rating model to be applied to the issuers of the shares (or borrowers of the shareholders loans / supplementary capital contributions) and, therefore, to them.

44.3.4.2 Relationships between internal and external ratings

The assignment of an internal rating to entities with an external rating is made through the Markets Template available in the Rating Calculation application. The Markets Template gathers the external ratings that were assigned to a specific entity by the rating agencies Standard & Poor's (S&P), Moody's and Fitch.

Specifically, the functionality of providing external ratings from S&P - XpressFeed feeds the application of External Ratings on a daily basis, which allows the external ratings published by these agencies for a given entity to be filled in the Markets Template. The external ratings assigned by Moody's and Fitch are not obtained automatically, having to be entered manually in the Markets Template, after consulting the respective websites (www.moodys.com and www.fitchratings.com).

The internal rating results, in the majority of situations, from the S&P equivalent external rating and, in exceptional situations, from the S&P equivalent external rating plus an internal adjustment, which must always be accompanied by justifying comments prepared by the analyst.

It should be noted that the S&P equivalent external rating is obtained by making a correspondence between the available external ratings and the rating scale of the referred financial rating agencies. The internal ratings produced by the Markets Template and which have had adjustments must be mandatorily approved and validated by the Rating Committee

The table below shows the correspondence between the external ratings S&P, Moody's and Fitch and the equivalent external rating S&P:

S&P	Moody's	Fitch	Equivalent external rating S&P
AAA	Aaa	AAA	AAA
AA+	Aa1	AA+	AA+
AA	Aa2	AA	AA
AA-	Aa3	AA-	AA-
A+	A1	A+	A+
A	A2	A	A
A-	A3	A-	A-
BBB+	Baa1	BBB+	BBB+
BBB	Baa2	BBB	BBB
BBB-	Baa3	BBB-	BBB-
BB+	Ba1	BB+	BB+
BB	Ba2	BB	BB
BB-	Ba3	BB-	BB-
B+	B1	B+	B+
B	B2	B	B
B-	B3	B-	B-
CCC+	Caa1	CCC+	CCC+
CCC	Caa2	CCC	CCC
CCC-	Caa3	CCC-	Lower than CCC
CC	Ca	CC	
SD	C	C	
D		RD/D	

44.3.4.3 Internal scoring models for Individual portfolios

Regarding scoring models for individual portfolios, NB has origination / concession and behavioral scoring models (applied to operations older than 6 months).

These models are automatic, based on statistical models developed with internal information, considering socio-demographic information, loan characteristics, behavioral information and automatic penalties (if there are warning signs). In the case of behavioral models, information on the remaining loans of the contract holders is also considered.

The Group is authorized by Bank of Portugal to use internal models in the calculation of regulatory capital requirements for the main portfolios of individuals: Mortgage Loans and Individual Loans. In addition, it has origination and behavioral scorings for the Credit Card, Overdraft and Loan Accounts products, which it uses for the purposes of designing and monitoring credit quality, however, not being IRB portfolios.

44.3.5. Delinquency

The table below displays the assets impaired, or overdue but not impaired:

(in thousands of Euros)

	31.12.2021					
	Neither overdue nor impaired	Overdue but not impaired	Impaired	Total exposure	Impairment	Net exposure
Deposits with and loans and advances to banks	506 789	-	-	506 789	(1 113)	505 676
Securities held for trading	114 465	-	-	114 465	-	114 465
Bonds issued by government and other public entities	*114 465*	-	-	*114 465*	-	*114 465*
Securities at fair value through profit/loss - mandatory	54 960	-	-	54 960	-	54 960
Bonds issued by other entities	*54 960*	-	-	*54 960*	-	*54 960*
Securities at fair value through other comprehensive income	7 137 846	-	22 770	7 160 616	(3 716)	7 156 900
Bonds issued by government and other public entities	*5 761 717*	-	-	*5 761 717*	*(3 043)*	*5 758 674*
Bonds issued by other entities	*1 376 129*	-	*22 770*	*1 398 899*	*(673)*	*1 398 226*
Securities at amortised cost	2 270 371	-	312 187	2 582 558	(246 997)	2 335 561
Bonds issued by government and other public entities	*377 335*	-	-	*377 335*	*(543)*	*376 792*
Bonds issued by other entities	*1 893 036*	-	*312 187*	*2 205 223*	*(246 454)*	*1 958 769*
Loans and advances to customers	23 175 161	8 506	1 748 786	24 932 453	(1 247 917)	23 684 536

(in thousands of Euros)

	31.12.2020					
	Neither overdue nor impaired	Overdue but not impaired	Impaired	Total exposure	Impairment	Net exposure
Deposits with and loans and advances to banks	303 252	-	314 138	617 390	(250 138)	367 252
Securities held for trading	267 016	-	-	267 016	-	267 016
Bonds issued by government and other public entities	*267 016*	-	-	*267 016*	-	*267 016*
Securities at fair value through profit/loss - mandatory	160 184	-	-	160 184	-	160 184
Bonds issued by other entities	*160 184*	-	-	*160 184*	-	*160 184*
Securities at fair value through other comprehensive income	7 820 072	-	22 770	7 842 842	(3 697)	7 839 145
Bonds issued by government and other public entities	*6 490 076*	-	-	*6 490 076*	*(3 132)*	*6 486 944*
Bonds issued by other entities	*1 329 996*	-	*22 770*	*1 352 766*	*(565)*	*1 352 201*
Securities at amortised cost	2 312 708	-	119 605	2 432 313	(201 237)	2 231 076
Bonds issued by government and other public entities	*421 249*	-	-	*421 249*	*(579)*	*420 670*
Bonds issued by other entities	*1 891 459*	-	*119 605*	*2 011 064*	*(200 658)*	*1 810 406*
Loans and advances to customers	23 026 101	7 276	2 183 432	25 216 809	(1 599 775)	23 617 034

Impaired exposures correspond to (i) exposures with objective evidence of loss ("Exposure in default", according to the internal definition of default - which corresponds to Stage 3); and (ii) exposures classified as having specific impairment after individual impairment assessment.

The exposures classified as not having impairment relate to (i) all exposures that do not show signs of significant deterioration in credit risk - exposures classified in Stage 1; (ii) exposures that, showing signs of significant deterioration in credit risk, have no objective evidence of loss or specific impairment after an individual assessment of impairment.

The following table presents the assets that are impaired or overdue but not impaired, split by their respective maturity or ageing (when overdue):

(in thousands of Euros)

	31.12.2021					
	Securities Portfolio - debt instruments		Deposits with and loans and advances to banks		Loans and advances to customers	
	Overdue but not impaired	Impaired	Overdue but not impaired	Impaired	Overdue but not impaired	Impaired
Overdue						
Up to 3 months	-	-	-	-	6 942	16 199
3 months to 1 year	-	210 598	-	-	1 110	18 033
1 to 3 years	-	1 940	-	-	387	48 558
3 to 5 years	-	37 594	-	-	38	71 646
More than 5 years	-	84 825	-	-	29	147 118
	-	**334 957**	**-**	**-**	**8 506**	**301 554**
Due						
Up to 3 months	-	-	-	-	-	95 322
3 months to 1 year	-	-	-	-	-	205 485
1 to 3 years	-	-	-	-	-	250 897
3 to 5 years	-	-	-	-	-	139 442
More than 5 years	-	-	-	-	-	756 086
	-	**-**	**-**	**-**	**-**	**1 447 232**
	-	**334 957**	**-**	**-**	**8 506**	**1 748 786**

(in thousands of Euros)

	31.12.2020					
	Securities Portfolio - debt instruments		Deposits with and loans and advances to banks		Loans and advances to customers	
	Overdue but not impaired	Impaired	Overdue but not impaired	Impaired	Overdue but not impaired	Impaired
Overdue						
Up to 3 months	-	-	-	34 726	5 194	15 240
3 months to 1 year	-	15 126	-	-	1 133	57 544
1 to 3 years	-	10 330	-	-	357	93 105
3 to 5 years	-	34 444	-	-	290	233 020
More than 5 years	-	82 475	-	-	302	219 616
	-	**142 375**	**-**	**34 726**	**7 276**	**618 525**
Due						
Up to 3 months	-	-	-	-	-	37 599
3 months to 1 year	-	-	-	-	-	308 017
1 to 3 years	-	-	-	-	-	273 779
3 to 5 years	-	-	-	-	-	149 134
More than 5 years	-	-	-	279 412	-	796 378
	-	**-**	**-**	**279 412**	**-**	**1 564 907**
	-	**142 375**	**-**	**314 138**	**7 276**	**2 183 432**

The following table shows the assets impaired or overdue but not impaired, broken down by the respective impairment Stage:

(in thousands of Euros)

	31.12.2021				31.12.2020			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Deposits with and loans and advances to banks	-	-	-	-	-	314 138	-	314 138
Securities at fair value through other comprehensive income	-	-	22 770	22 770	-	-	22 770	22 770
Securities at amortised cost	-	-	312 187	312 187	-	-	119 605	119 605
Loans and advances to customers	4 881	3 625	1 748 786	1 757 292	1 679	5 597	2 183 432	2 190 708
	4 881	**3 625**	**2 083 743**	**2 092 249**	**1 679**	**319 735**	**2 325 807**	**2 647 221**

Credit risk by rating grade

Regarding assets that are neither past due nor impaired, the distribution by rating grade is presented below. For the debt instruments, the rating assigned by the Rating Agencies is taken into account, for the credit to clients and cash and deposits with credit institutions, the internal rating and scoring models are used, that assign a risk rating, which is periodically reviewed. For the purposes of presenting the information, the ratings have been aggregated into five major risk groups, with the last group including the unrated exposures.

(in thousands of Euros)

	31.12.2021					
	Prime +High grade	*Upper Medium Grade*	*Lower Medium grade*	*Non Investment Grade Speculative + Highly speculative*	**Others**	**Total**
Deposits with and loans and advances to banks	1 100	139 814	38 972	47 728	279 175	506 789
Securities held for trading	-	-	-	-	114 465	114 465
Bonds issued by government and other public enti	-	-	-	-	*114 465*	*114 465*
Securities at fair value through profit/loss - mandatory	-	-	-	-	54 960	54 960
Bonds issued by other entities	-	-	-	-	*54 960*	*54 960*
Securities at fair value through other comprehensive incom	1 453 919	1 982 997	3 550 221	1 788	148 921	7 137 846
Bonds issued by government and other public enti	*993 474*	*1 934 969*	*2 785 748*	-	*47 526*	*5 761 717*
Bonds issued by other entities	*460 445*	*48 028*	*764 473*	*1 788*	*101 395*	*1 376 129*
Títulos ao custo amortizado	10 631	157 161	422 751	229 072	1 450 756	2 270 371
Bonds issued by government and other public enti	-	-	-	-	*377 335*	*377 335*
Bonds issued by other entities	*10 631*	*157 161*	*422 751*	*229 072*	*1 073 421*	*1 893 036*
Loans and advances to customers	3 447 441	8 905 980	2 591 239	6 953 998	1 276 503	23 175 161

(in thousands of Euros)

	31.12.2020					
	Prime +High grade	*Upper Medium Grade*	*Lower Medium grade*	*Non Investment Grade Speculative + Highly speculative*	**Others**	**Total**
Deposits with and loans and advances to banks	1 096	139 859	48 121	38 073	76 103	303 252
Securities held for trading	-	-	267 016	-	-	267 016
Bonds issued by government and other public enti	-	-	*267 016*	-	-	*267 016*
Instrumentos de dívida - emissores públicos	-	-	-	-	-	-
Securities at fair value through profit/loss - mandatory	-	32 670	-	-	127 514	160 184
Instrumentos de dívida - emissores públicos	-	-	-	-	-	-
Bonds issued by other entities	-	*32 670*	-	-	*127 514*	*160 184*
Securities at fair value through other comprehensive incom	1 415 572	2 335 007	3 330 418	-	739 075	7 820 072
Bonds issued by government and other public enti	*966 035*	*2 322 904*	*2 946 842*	-	*254 295*	*6 490 076*
Bonds issued by other entities	*449 537*	*12 103*	*383 576*	-	*484 780*	*1 329 996*
Títulos ao custo amortizado	-	51 608	140 510	37 958	2 082 632	2 312 708
Bonds issued by government and other public enti	-	-	-	-	*421 249*	*421 249*
Bonds issued by other entities	-	*51 608*	*140 510*	*37 958*	*1 661 383*	*1 891 459*
Loans and advances to customers	3 734 056	8 854 914	2 469 068	6 855 355	1 112 709	23 026 101

As at 31 December 2021 and 2020, the analysis of the gross loans and advances to customers' exposure and impairment constituted, by segment, is presented as follows:

(in thousands of Euros)

31.12.2021														
Segment	Perfoming						Non-Perfoming						Total Credit	
	Performing or with a delay < 30 days		With a delay > 30 days		Total		Days of delay				Total		Exposure	Impairment
							<= 90 days		> 90 days					
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment		
Corporate	12 191 609	320 313	132 381	8 736	12 323 990	329 049	873 543	361 247	516 492	322 384	1 390 035	683 631	13 714 025	1 012 680
Mortgage loans	9 606 873	25 093	33 754	1 337	9 640 627	26 430	123 210	20 723	48 176	8 867	171 386	29 590	9 812 013	56 020
Consumer and other loans	1 207 196	22 130	8 612	1 552	1 215 808	23 682	153 471	136 985	37 136	18 550	190 607	155 535	1 406 415	179 217
Total	**23 005 678**	**367 536**	**174 747**	**11 625**	**23 180 425**	**379 161**	**1 150 224**	**518 955**	**601 804**	**349 801**	**1 752 028**	**868 756**	**24 932 453**	**1 247 917**

(in thousands of Euros)

31.12.2020														
Segment	Perfoming						Non-Perfoming						Total Credit	
	Performing or with a delay < 30 days		With a delay > 30 days		Total		Days of delay				Total		Exposure	Impairment
							<= 90 days		> 90 days					
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment		
Corporate	12 109 249	328 589	7 200	645	12 116 449	329 234	940 235	471 147	816 374	544 639	1 756 609	1 015 786	13 873 058	1 345 020
Mortgage loans	9 723 675	17 526	65 067	1 706	9 788 742	19 232	110 577	17 312	111 134	29 301	221 711	46 613	10 010 453	65 845
Consumer and other loans	1 116 057	21 113	12 129	2 391	1 128 186	23 504	147 730	122 182	57 382	43 224	205 112	165 406	1 333 298	188 910
Total	**22 948 981**	**367 228**	**84 396**	**4 742**	**23 033 377**	**371 970**	**1 198 542**	**610 641**	**984 890**	**617 164**	**2 183 432**	**1 227 805**	**25 216 809**	**1 599 775**

As at 31 December 2021 and 2020, the analysis of the Loans and advances to customers' portfolio, by segment and by year of reference was as follows:

(in thousands of Euros)

31.12.2021												
Year of production	Corporate			Mortgage loans			Consumer and other loans			Total		
	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment
2004 and prior	4 099	219 797	4 585	64 530	1 322 038	10 532	717 590	54 041	11 689	786 219	1 595 876	26 806
2005	769	47 005	2 883	8 057	320 861	2 725	10 142	6 837	266	18 968	374 703	5 874
2006	975	171 971	29 831	13 477	600 300	4 098	12 829	7 999	849	27 281	780 270	34 778
2007	1 336	284 776	50 359	20 113	891 891	6 739	23 922	11 051	705	45 371	1 187 718	57 803
2008	1 140	473 578	24 647	13 553	633 292	4 542	19 181	9 037	349	33 874	1 115 907	29 538
2009	851	200 431	24 417	8 745	438 134	2 452	11 337	17 744	8 663	20 933	656 309	35 532
2010	1 003	170 833	19 125	8 215	455 499	3 204	17 657	24 310	794	26 875	650 642	23 123
2011	994	184 975	48 473	4 307	199 745	1 221	19 395	18 364	493	24 696	403 084	50 187
2012	1 280	242 759	41 290	2 368	85 133	834	25 833	15 821	1 094	29 481	343 713	43 218
2013	1 669	415 767	77 995	2 754	130 239	1 518	23 129	25 084	1 769	27 552	571 090	81 282
2014	1 760	314 087	110 955	1 760	94 755	737	21 449	21 714	615	24 969	430 556	112 307
2015	2 570	626 789	122 220	2 713	164 306	810	26 890	118 868	91 085	32 173	909 963	214 115
2016	3 692	648 093	51 245	5 573	373 517	1 958	42 807	77 401	21 746	52 072	1 099 011	74 949
2017	6 282	879 951	63 746	8 633	675 178	3 757	48 286	94 954	6 888	63 201	1 650 083	74 391
2018	7 851	1 506 020	89 004	9 888	899 601	3 656	57 520	144 321	6 393	75 259	2 549 942	99 053
2019	9 349	2 429 806	153 837	10 070	969 282	3 519	63 893	232 921	10 950	83 312	3 632 009	168 306
2020	11 324	2 486 691	60 824	7 358	723 917	2 125	41 957	198 295	6 576	60 639	3 408 903	69 525
2021	12 964	2 410 696	37 244	7 450	834 325	1 593	60 640	327 653	8 293	81 054	3 572 674	47 130
Total	**69 908**	**13 714 025**	**1 012 680**	**199 564**	**9 812 013**	**56 020**	**1 244 457**	**1 406 415**	**179 217**	**1 513 929**	**24 932 453**	**1 247 917**

(in thousands of Euros)

Year of production	31.12.2020 Corporate Number of operations	Amount	Impairment	Mortgage loans Number of operations	Amount	Impairment	Consumer and other loans Number of operations	Amount	Impairment	Total Number of operations	Amount	Impairment
2004 and prior	4 508	253 737	12 541	70 884	1 525 145	15 028	732 974	54 539	16 638	808 366	1 833 421	44 207
2005	801	66 294	6 277	8 760	363 661	3 964	10 920	7 453	388	20 481	437 408	10 629
2006	1 047	228 528	52 349	14 695	672 558	5 747	18 044	9 413	1 029	33 786	910 499	59 125
2007	1 311	308 621	46 549	21 786	1 003 716	9 050	25 665	12 887	1 567	48 762	1 325 224	57 166
2008	1 275	507 028	30 559	14 578	709 233	5 732	20 567	10 778	775	36 420	1 227 039	37 066
2009	991	282 231	41 733	9 533	492 528	4 356	12 380	19 179	8 274	22 904	793 938	54 363
2010	1 224	303 769	76 409	8 908	508 778	4 276	19 274	29 123	1 381	29 406	841 670	82 066
2011	1 208	214 814	48 687	4 847	226 201	2 214	22 191	20 942	1 145	28 246	461 957	52 046
2012	1 500	379 756	133 774	2 626	96 782	1 418	28 413	18 224	1 873	32 539	494 762	137 065
2013	2 065	506 226	116 278	3 041	149 827	1 520	25 794	27 293	8 798	30 900	683 346	126 596
2014	2 141	456 374	193 612	1 933	107 869	743	25 229	23 155	1 101	29 303	587 398	195 456
2015	3 442	730 681	146 759	2 977	185 390	787	30 078	124 058	82 465	36 497	1 040 129	230 011
2016	4 910	806 562	62 679	6 108	424 352	1 627	49 529	92 372	22 336	60 547	1 323 286	86 642
2017	7 939	1 124 252	66 057	9 475	762 490	3 039	56 275	129 533	10 083	73 689	2 016 275	79 179
2018	8 993	1 914 976	117 147	10 800	1 006 802	2 716	67 185	198 768	10 025	86 978	3 120 546	129 888
2019	10 488	2 771 828	137 204	10 672	1 035 025	2 358	74 966	304 366	13 832	96 126	4 111 219	153 394
2020	17 700	3 017 381	56 406	7 339	740 096	1 270	48 711	251 215	7 200	73 750	4 008 692	64 876
Total	**71 543**	**13 873 058**	**1 345 020**	**208 962**	**10 010 453**	**65 845**	**1 268 195**	**1 333 298**	**188 910**	**1 548 700**	**25 216 809**	**1 599 775**

The figures presented include, in addition to all new operations of the reference year, renewals, interventions and restructurings of operations originated in previous years, including the period prior to the setting up of novobanco.

44.3.6 Collaterals

In order to mitigate credit risk, credit operations have associated guarantees, namely mortgages or pledges. The fair value of these guarantees is determined at the date of granting the credit and is periodically reassessed. Below is the gross value of the credits and the respective fair value of the collateral, limited to the value of the associated credit:

(in thousands of Euros)

	31.12.2021 Amount of loans	Impairment	Net Value	Fair value of collateral	31.12.2020 Amount of loans	Impairment	Net Value	Fair value of collateral
Individuals - Mortgage								
Mortgages	9 568 808	(53 088)	9 515 720	9 558 200	9 801 563	(58 626)	9 742 937	9 786 018
Pledges	169 020	(307)	168 713	162 514	113 702	(162)	113 540	113 198
Not collateralized	74 185	(2 625)	71 560	-	95 188	(7 057)	88 131	-
	9 812 013	**(56 020)**	**9 755 993**	**9 720 714**	**10 010 453**	**(65 845)**	9 944 608	**9 899 216**
Individuals - Other								
Mortgages	250 032	(4 807)	245 225	247 376	219 239	(7 618)	211 621	216 301
Pledges	263 320	(120 324)	142 996	144 768	267 102	(123 190)	143 912	148 584
Not collateralized	893 063	(54 086)	838 977	-	846 957	(58 102)	788 855	-
	1 406 415	**(179 217)**	**1 227 198**	**392 144**	**1 333 298**	**(188 910)**	1 144 388	**364 885**
Corporate								
Mortgages	3 527 247	(356 772)	3 170 475	3 159 754	3 622 160	(560 905)	3 061 255	3 130 712
Pledges	2 055 529	(162 391)	1 893 138	760 456	2 210 683	(284 521)	1 926 162	836 026
Not collateralized	8 131 249	(493 517)	7 637 732	-	8 040 215	(499 594)	7 540 621	-
	13 714 025	**(1 012 680)**	**12 701 345**	**3 920 210**	**13 873 058**	**(1 345 020)**	12 528 038	**3 966 738**
Total	**24 932 453**	**(1 247 917)**	**23 684 536**	**14 033 068**	**25 216 809**	**(1 599 775)**	**23 617 034**	**14 230 839**

The difference between the value of the credit and the fair value of the collateral represents the total credit exposure that exceeds the value of the collateral, this value not being impacted by collaterals with a fair value higher than the credit to which they are associated.

The details of the collateral – mortgages is presented as follows:

(in thousands of Euros)

Collateral intervals [a)]	31.12.2021							
	Individuals - Mortgage loans		Individuals - Other loans		Corporate loans		Total	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
<0,5M€	194 158	9 332 748	5 823	234 146	11 125	490 422	211 106	10 057 316
>= 0,5M€ e <1,0M€	264	161 929	14	6 039	1 965	256 215	2 243	424 183
>= 1,0M€ e <5,0M€	47	63 523	3	7 191	18 534	799 951	18 584	870 665
>= 5,0M€ e <10,0M€	-	-	-	-	13 225	460 762	13 225	460 762
>= 10,0M€ e <20,0M€	-	-	-	-	2 241	530 515	2 241	530 515
>= 20,0M€ e <50,0M€	-	-	-	-	155	451 567	155	451 567
>=50M€	-	-	-	-	1 565	170 322	1 565	170 322
	194 469	**9 558 200**	**5 840**	**247 376**	**48 810**	**3 159 754**	**249 119**	**12 965 330**

a) The allocation by intervals was based on the total amount of collateral per credit agreement

(in thousands of Euros)

Collateral intervals [a)]	31.12.2020							
	Individuals - Mortgage loans		Individuals - Other loans		Corporate loans		Total	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
<0,5M€	202 981	9 593 284	5 107	200 866	9 748	505 417	217 836	10 299 567
>= 0,5M€ and <1,0M€	248	146 377	26	8 552	2 202	264 144	2 476	419 073
>= 1,0M€ and <5,0M€	36	46 357	3	6 883	7 537	839 109	7 576	892 349
>= 5,0M€ and <10,0M€	-	-	-	-	5 979	401 084	5 979	401 084
>= 10,0M€ and <20,0M€	-	-	-	-	4 014	477 539	4 014	477 539
>= 20,0M€ and <50,0M€	-	-	-	-	170	471 926	170	471 926
>=50M€	-	-	-	-	1 566	171 493	1 566	171 493
	203 265	**9 786 018**	**5 136**	**216 301**	**31 216**	**3 130 712**	**239 617**	**13 133 031**

a) The allocation by intervals was based on the total amount of collateral per credit agreement

The values of mortgages collateral, shown above, represents the maximum coverage value of the covered assets, i.e., which concur to the gross value of the individual covered credits.

In assessing the risk of an operation or set of operations, the elements of credit risk mitigation associated with them are considered, in accordance with internal rules and procedures.

The relevant collaterals are essentially the following:

- Real estate, where the value considered is the correspondent to the last available valuation;
- Financial pledges, where the value considered corresponds to the quotation on the last day of the month, in the case of being a listed security, or the value of the pledge, in the case of being cash.

The acceptance of collateral as a guarantee for credit operations refers to the need to define and implement risk mitigation techniques to which these collaterals are exposed. Thus, and as an approach to this matter, the Group stipulated a set of procedures applicable to collateral (namely financial and real estate), which cover, among others, the volatility of the collateral value, its liquidity, and an indication as to the recovery rates associated with each type of collateral.

The internal rules on credit powers thus have a specific chapter on this point, "Acceptance of collateral - techniques for mitigating the risks to which collateral is exposed, namely liquidity and volatility risks".

The revaluation process for real estate is performed by independent valuation experts registered in CMVM, following the methodologies as described in Note 8.6.

44.3.7 Credit risk concentration

The analysis of risk exposure by sector of activity, as at 31 December 2021 and 2020, is presented as follows:

(in thousands of Euros)

31.12.2021

	Loans and advances to customers		Financial assets held for trading	Derivatives for trading and fair value option derivates	Financial assets at fair value through profit or loss -mandatory	Derivatives - hedge accounting	Financial assets at fair value through other comprehensive income		Financial assets at amortised cost		Guarantees and endorsements provided	
	Gross amount	Impairment					Gross amount	Impairment	Gross amount	Impairment	Gross amount	Impairment
Agriculture, Forestry and Fishery	329 579	(8 977)	-	397	-	-	29 007	(14)	20 249	(45)	11 196	(6 318)
Mining	40 882	(333)	-	-	-	-	14 189	(13)	19 391	(4)	5 972	(205)
Food, Beverages and Tobacco	511 938	(14 257)	-	7 233	-	-	-	-	76 401	(196)	49 435	(319)
Textiles and Clothing	372 933	(13 920)	-	290	-	-	-	-	4 298	(2)	7 450	(741)
Leather and Shoes	79 044	(728)	-	5	-	-	-	-	1 501	(6)	1 363	(122)
Wood and Cork	108 868	(2 996)	-	500	-	-	-	-	2 199	(12)	7 322	(259)
Paper and Printing Industry	149 815	(10 180)	-	96	-	-	-	-	1 497	(4)	2 150	(18)
Refining of Petroleum	11 459	(20)	-	-	-	-	-	-	40 793	(22)	4 022	(1)
Chemicals and Rubber	338 994	(5 157)	-	271	-	-	19 410	(13)	133 694	(123)	18 453	(80)
Non-metallic Minerals	168 159	(3 342)	-	-	-	-	-	-	33 754	(153)	15 177	(305)
Metallurgical Industries and Metallic Products	391 734	(11 974)	-	370	-	-	16 235	(11)	1 299	(62)	31 575	(456)
Production of Machinery, Equipment and Elec	170 744	(9 219)	-	159	-	-	66 078	(49)	48 010	(24)	20 503	(2 248)
Production of Transport Material	119 030	(3 514)	-	43	-	-	-	-	15 046	(8)	10 669	(527)
Other Transforming Industries	141 936	(10 598)	-	-	-	-	-	-	4 983	(20)	19 208	(2 821)
Electricity, Gas and Water	296 885	(3 323)	-	17 062	-	-	53 579	(41)	113 203	(3 988)	33 504	(687)
Construction and Public Works	1 295 265	(135 843)	-	75 005	-	-	-	-	196 417	(94 332)	672 470	(37 764)
Wholesale and Retail Trade	1 405 455	(48 479)	-	765	-	-	40 669	(29)	50 398	(90)	202 603	(3 481)
Tourism	1 055 211	(97 092)	-	191	-	-	118	-	-	-	51 900	(1 076)
Transport and Communication	864 952	(51 401)	-	49 111	-	-	96 999	(61)	43 865	(191)	351 109	(2 039)
Financial Activities	469 127	(44 808)	-	101 410	794 368	19 639	913 525	(317)	479 556	(1 424)	150 817	(3 380)
Real Estate Activities	1 666 331	(144 565)	-	6 281	2 751	-	908	-	178 280	(33 430)	107 615	(5 246)
Services Provided to Companies	2 438 656	(225 158)	-	3 250	95	-	85 155	(45)	655 753	(111 600)	386 548	(10 115)
Public Administration and Services	582 357	(22 872)	114 465	-	-	-	5 761 969	(3 043)	377 335	(543)	20 611	(110)
Other activities of collective services	592 331	(75 562)	-	758	2 378	-	123 155	(80)	84 636	(718)	36 256	(955)
Mortgage Loans	9 812 013	(56 020)	-	-	-	-	-	-	-	-	-	-
Consumers Loans	1 406 415	(179 217)	-	-	-	-	-	-	-	-	-	-
Others	112 340	(68 362)	-	2	-	-	-	-	-	-	16 315	(326)
TOTAL	**24 932 453**	**(1 247 917)**	**114 465**	**263 199**	**799 592**	**19 639**	**7 220 996**	**(3 716)**	**2 582 558**	**(246 997)**	**2 234 243**	**(79 599)**

(in thousands of Euros)

31.12.2020

	Loans and advances to customers		Financial assets held for trading	Derivatives for trading and fair value option derivates	Financial assets at fair value through profit or loss -mandatory	Derivatives - hedge accounting	Financial assets at fair value through other comprehensive income		Financial assets at amortised cost		Guarantees and endorsements provided	
	Gross amount	Impairment					Gross amount	Impairment	Gross amount	Impairment	Gross amount	Impairment
Agriculture, Forestry and Fishery	333 150	(11 213)	-	690	-	-	29 227	(13)	19 196	(26)	12 411	(6 004)
Mining	74 587	(18 626)	-	-	-	-	-	-	18 380	(4)	8 013	(193)
Food, Beverages and Tobacco	535 893	(16 677)	-	10 113	-	-	-	-	73 076	(2 277)	50 449	(295)
Textiles and Clothing	358 937	(15 812)	-	255	-	-	-	-	1 197	-	9 336	(2 608)
Leather and Shoes	72 598	(3 184)	-	-	-	-	-	-	-	-	2 074	(107)
Wood and Cork	116 943	(3 946)	-	236	-	-	-	-	12 512	(49)	6 546	(46)
Paper and Printing Industry	204 175	(19 003)	-	27	-	-	-	-	31 483	(48)	3 542	(32)
Refining of Petroleum	9 867	(14)	-	-	-	-	-	-	40 135	(20)	1 804	-
Chemicals and Rubber	323 798	(5 175)	-	1 576	-	-	19 597	(13)	131 643	(67)	18 684	(122)
Non-metallic Minerals	126 754	(7 884)	-	-	-	-	16 483	(14)	3 441	(4)	18 496	(269)
Metallurgical Industries and Metallic Products	361 426	(12 497)	-	281	-	-	16 533	(10)	1 498	(21)	42 633	(384)
Production of Machinery, Equipment and Elec	141 484	(9 161)	-	349	-	-	42 692	(26)	45 059	(22)	64 780	(979)
Production of Transport Material	118 960	(2 999)	-	78	-	-	-	-	15 039	(8)	12 297	(638)
Other Transforming Industries	141 682	(11 021)	-	-	-	-	-	-	4 987	(35)	18 390	(2 359)
Electricity, Gas and Water	337 076	(19 073)	-	22 809	-	-	33 978	(25)	138 950	(418)	101 060	(194)
Construction and Public Works	1 401 976	(166 456)	-	97 763	-	-	-	-	199 316	(60 786)	888 736	(39 174)
Wholesale and Retail Trade	1 388 289	(61 648)	-	3 741	-	-	41 174	(27)	45 435	(51)	202 637	(2 177)
Tourism	980 980	(80 486)	-	362	-	-	182	-	-	-	62 419	(7 129)
Transport and Communication	874 941	(53 234)	-	67 527	-	-	99 577	(63)	11 639	(16)	376 637	(1 794)
Financial Activities	470 353	(61 084)	-	163 798	882 971	12 972	749 263	(249)	369 587	(938)	133 476	(749)
Real Estate Activities	1 776 935	(221 118)	-	8 147	-	-	867	-	100 777	(26 181)	214 027	(21 151)
Services Provided to Companies	2 322 854	(305 367)	-	9 034	75 613	-	102 139	(53)	705 450	(109 627)	386 795	(4 264)
Public Administration and Services	591 860	(26 300)	267 016	-	-	-	6 490 358	(3 125)	421 249	(579)	24 295	(191)
Other activities of collective services	688 940	(143 175)	-	1 471	2 378	-	99 878	(58)	42 264	(60)	142 419	(824)
Mortgage Loans	10 010 453	(65 845)	-	-	-	-	-	-	-	-	35	-
Consumers Loans	1 333 298	(188 910)	-	-	-	-	-	-	-	-	6 584	-
Others	118 600	(69 867)	-	-	-	-	165 639	(14)	-	-	17 615	(480)
TOTAL	**25 216 809**	**(1 599 775)**	**267 016**	**388 257**	**960 962**	**12 972**	**7 907 587**	**(3 690)**	**2 432 313**	**(201 237)**	**2 826 190**	**(92 163)**

Exposure to sovereign debt of "peripheral" Eurozone countries

As at 31 December 2021 and 2020, the Group's exposure to sovereign debt of "peripheral" Eurozone countries, is presented as follows:

(in thousands of Euros)

	31.12.2021					
	Loans and advances to customers	Securities held for trading	Derivative instruments [1]	Securities at fair value through other comprehensive income	Securities at amortised cost	Total
Portugal	557 419	114 465	-	2 564 587	376 792	3 613 263
Spain	-	-	-	1 619 260	-	1 619 260
Ireland	-	-	-	171 608	-	171 608
Italy	-	-	-	148 601	-	148 601
	557 419	**114 465**	**-**	**4 504 056**	**376 792**	**5 552 732**

[1] Net values: receivable / (payable)

(in thousands of Euros)

	31.12.2020					
	Loans and advances to customers	Securities held for trading	Derivative instruments [1]	Securities at fair value through other comprehensive income	Securities at amortised cost	Total
Portugal	591 859	267 016	(16)	2 780 473	420 670	4 060 002
Spain	-	-	-	2 039 075	-	2 039 075
Ireland	-	-	-	237 844	-	237 844
Italy	-	-	-	134 238	-	134 238
	591 859	**267 016**	**(16)**	**5 191 630**	**420 670**	**6 471 159**

[1] Net values: receivable / (payable)

Except for Loans and advances to customers, all the exposures presented above, except those relating to loans and advances to customers, are recorded in the Group's balance sheet at fair value, based on market quotations or, in the case derivatives, based on valuation techniques using observable market parameters / prices.

The details of the exposure regarding the securities are as follows:

(in thousands of Euros)

31.12.2021	Nominal Amount	Market quotation	Accrued interest	Carrying book value	Impairment	Fair value reserves
Securities at fair value through other comprehensive income						
Portugal	**2 298 790**	**2 538 669**	**25 918**	**2 564 587**	**-**	**86 185**
Maturity up to 1 year	412 050	419 341	1 582	420 923	-	2 994
Maturity exceeding 1 year	1 886 740	2 119 328	24 336	2 143 664	-	83 191
Spain	**1 529 200**	**1 594 096**	**25 164**	**1 619 260**	**-**	**46 283**
Maturity up to 1 year	755 000	758 261	17 334	775 595	-	1 729
Maturity exceeding 1 year	774 200	835 835	7 830	843 665	-	44 554
Ireland	**153 600**	**170 350**	**1 258**	**171 608**	**-**	**13 457**
Maturity exceeding 1 year	153 600	170 350	1 258	171 608	-	13 457
Italy	**148 561**	**148 286**	**315**	**148 601**	**-**	**215**
Maturidade até 1 ano	-	-	-	-	-	-
Maturity exceeding 1 year	148 561	148 286	315	148 601	-	215
	4 130 151	**4 451 401**	**52 655**	**4 504 056**	**-**	**146 140**
Securities at amortised cost						
Portugal	106 500	114 017	448	114 465	-	-
	106 500	**114 017**	**448**	**114 465**	**-**	**-**
Securities held for trading						
Portugal	**375 646**	**425 189**	**1 689**	**376 792**	**543**	**-**
Maturity exceeding 1 year	375 646	425 189	1 689	376 792	543	-
	375 646	**425 189**	**1 689**	**376 792**	**543**	**-**

(in thousands of Euros)

31.12.2020	Nominal Amount	Market quotation	Accrued interest	Carrying book value	Impairment	Fair value reserves
Securities at fair value through other comprehensive income						
Portugal	**2 420 973**	**2 753 428**	**27 045**	**2 780 473**	**-**	**129 520**
Maturity up to 1 year	227 455	231 102	1 760	232 862	-	798
Maturity exceeding 1 year	2 193 518	2 522 326	25 285	2 547 611	-	128 722
Spain	**1 894 750**	**2 012 871**	**26 204**	**2 039 075**	**-**	**75 509**
Maturity exceeding 1 year	1 514 750	1 630 359	25 144	1 655 503	-	74 029
Ireland	**193 600**	**236 205**	**1 639**	**237 844**	**-**	**39 340**
Maturity exceeding 1 year	193 600	236 205	1 639	237 844	-	39 340
Italy	**129 821**	**133 655**	**583**	**134 238**	**-**	**4 177**
Maturity exceeding 1 year	49 821	51 854	190	52 044	-	2 561
	4 639 144	**5 136 159**	**55 471**	**5 191 630**	**-**	**248 546**
Securities at amortised cost						
Portugal	213 500	264 033	2 983	267 016	-	-
	213 500	**264 033**	**2 983**	**267 016**	**-**	**-**
Securities held for trading						
Portugal	**419 438**	**478 998**	**1 811**	**480 809**	**579**	**-**
Maturity exceeding 1 year	419 438	478 998	1 811	480 809	579	-
	419 438	**478 998**	**1 811**	**480 809**	**579**	**-**

44.3.8 Forborne modified loans

The Group proceeds to the identification and register of restructured credit contracts due to the client's financial difficulties whenever there are changes to the terms and conditions of a contract in which the client has defaulted, that is, it is foreseeable that it will default, with a financial obligation. It is considered that there is a change to the terms and conditions of the contract when (i) there are contractual changes to the benefit of the customer, such as extending the term, introducing grace periods, reducing the rate or partial debt forgiveness; (ii) there is a contracting of a new credit operation to settle the existing debt (total or partial); or (iii) the new terms of the contract are more favorable than those applied to other customers with the same risk profile.

The cancellation of a restructured credit due to the client's financial difficulties can only occur after a minimum period of two years from the date of the restructuring, provided that the following conditions are cumulatively fulfilled: (i) regular payment of capital and interest; (ii) the customer has no capital or interest due; and (iii) there were no debt restructuring mechanisms by the client in that period.

The amounts of the restructured loans due to financial difficulties of the customer as at 31 December 2021 and 2020, are as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Corporate	1 274 056	1 782 137
Mortgage loans	149 363	154 216
Consumer and other loans	138 369	147 775
Total	**1 561 788**	**2 084 128**

The details of the restructuring measures applied to loans restructured up to 31 December 2021 and 2010 are the following:

(in thousands of Euros)

Solution	31.12.2021								
	Performing			Non Performing			Total		
	No. Transaction	Exposure	Impairment	No. Transaction	Exposure	Impairment	No. Transaction	Exposure	Impairment
Principal or interest forgiveness	37	14 027	1 886	101	169 163	102 454	138	183 190	104 340
Assets received in partial settlement of loan	16	1 043	145	19	420	195	35	1 463	340
Capitalization of interest	36	6 796	359	100	79 248	46 515	136	86 044	46 874
New loan in total or partial payment of existing loan	1 334	171 823	12 731	444	123 983	57 630	1 778	295 806	70 361
Extension of repayment period	2 111	389 486	60 177	868	428 489	261 517	2 979	817 975	321 694
Introduction of grace period of principal or interest	344	28 207	787	85	55 586	25 331	429	83 793	26 118
Decrease in the interest rates	83	10 598	460	24	19 823	6 050	107	30 421	6 510
Changes of the lease payment plan	115	7 103	394	45	8 719	2 891	160	15 822	3 285
Changes in the interest paymen	4	2 020	228	2	1 997	1 694	6	4 017	1 922
Other	1 218	35 408	1 014	286	7 849	3 986	1 504	43 257	5 000
Total	**5 298**	**666 511**	**78 181**	**1 974**	**895 277**	**508 263**	**7 272**	**1 561 788**	**586 444**

(in thousands of Euros)

Solution	31.12.2020								
	Performing			Non Performing			Total		
	No. Transaction	Exposure	Impairment	No. Transaction	Exposure	Impairment	No. Transaction	Exposure	Impairment
Principal or interest forgiveness	43	57 740	3 921	150	177 807	107 513	193	235 547	111 434
Assets received in partial settlement of loan	20	1 104	159	22	2 078	1 924	42	3 182	2 083
Capitalization of interest	44	12 994	1 002	181	123 462	74 085	225	136 456	75 087
New loan in total or partial payment of existing loan	1 483	90 212	10 130	575	231 373	145 655	2 058	321 585	155 785
Extension of repayment period	2 063	514 009	81 700	921	590 946	382 265	2 984	1 104 955	463 965
Introduction of grace period of principal or interest	339	33 881	1 504	111	60 421	28 147	450	94 302	29 651
Decrease in the interest rates	101	13 859	466	30	65 171	23 549	131	79 030	24 015
Changes of the lease payment plan	122	9 698	787	72	39 634	21 771	194	49 332	22 558
Changes in the interest paymen	5	20	1	2	2 769	2 380	7	2 789	2 381
Other	1 409	47 127	1 304	656	9 823	1 159	2 065	56 950	2 463
Total	**5 629**	**780 644**	**100 974**	**2 720**	**1 303 484**	**788 448**	**8 349**	**2 084 128**	**889 422**

The movement of restructured loans throughout the years 2021 and 2020 was as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Opening balance	2 084 128	2 729 602
Restructured loans in the period	272 250	402 874
Loans reclassified to "normal"	(186 700)	(101 157)
Loans written off	(179 239)	(300 821)
Others	(428 651)	(646 370)
Total	**1 561 788**	**2 084 128**

44.3.9 Moratorium

Following the recommendations of the European Banking Authority and according with Instruction no. 19/2020 on the reporting and disclosure of information on exposures subject to measures applied in response to the Covid-19 crisis as per EBA (EBA/GL/2020/07), we present below the following details referring to default and loans granted under the new public guarantee plans, which are fully applicable to the consolidation perimeters of Nani Holdings, SGPS; SA and LSF Nani Investments S.à.r.l:

Information on loans and advances subject to legislative and non-legislative moratorium

(in thousands of Euros)

	Gross carrying amount									Accumulated impairment, accumulated negative changes in fair value resulting from credit risk									Gross carrying amount
		Productive			Non-productive								Non-productive						
			Of which: exposures subject to restructuring measures	Of which: instruments with a significant increase in credit risk since initial recognition but without credit impairment (Stage 2)		Of which: exposures subject to restructuring measures	Of which: Reduced probability of payment that are not past due or past due for <= 90 days	Of which: exposures subject to restructuring measures	Of which: Reduced probability of payment that are not past due or past due for <= 90 days		Of which: exposures subject to restructuring measures	Of which: instruments with a significant increase in credit risk since initial recognition but without credit		Of which: exposures subject to restructuring measures	Of which: Reduced probability of payment that are not past due or past due for <= 90 days	Of which: Reduced probability of payment that has not been due or has been due for a long time <= 90 dias	Of which: exposures subject to restructuring measures	Of which: Reduced probability of payment that are not past due or past due for <= 90 days	Entries to non-productive exhibitions
Loans and advances subject to a moratorium	116 696	70 940	33 662	189	23 122	45 756	783	21 491	27 561	-26 267	-1 179	-768	-2	-564	-25 089	-192	-11 099	-15 508	45 756
of which: private	13 495	12 591	6 748	169	3 944	904	520	6	788	-200	-96	-44	-1	-87	-104	-59	-1	-87	125
of which: secured by residential properties	*13 141*	*12 237*	*6 725*	*169*	*3 928*	*904*	*520*	*6*	*788*	*-197*	*-93*	*-43*	*-1*	*-86*	*-104*	*-59*	*-1*	*-87*	*125*
of which: non-financial corporations	101 688	56 836	26 897	20	17 683	44 852	264	21 485	26 773	-26 066	-1 081	-724	-1	-476	-24 985	-133	-11 098	-15 422	44 852
of which: small and medium-sized enterprises	*88 275*	*51 998*	*26 233*	*20*	*15 582*	*36 278*	*264*	*21 485*	*18 198*	*-21 325*	*-1 026*	*-720*	*-1*	*-426*	*-20 299*	*-133*	*-11 098*	*-10 735*	*215*
of which: secured by commercial real estate	*54 900*	*30 463*	*17 875*	*0*	*8 508*	*24 437*	*0*	*18 634*	*6 423*	*-13 212*	*-652*	*-513*	*0*	*-123*	*-12 560*	*0*	*-9 787*	*-3 006*	*0*

Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual term of the moratorium

(in thousands of Euros)

	Number of debtors	Gross carrying amount								
			Of which: legislative moratoriums	Of which: expired	deadline for default					
					<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year	> 1 year
Loans and advances that have been offered a moratorium	40 222	6 853 599								
Loans and advances subject to a moratorium (applied)	40 222	6 853 599	5 537 108	112 708	6 736 902	82 572	8 617	20 695	707	4 105
of which: households		2 158 877	1 498 128	13 495	2 145 382	13 495	0	0	0	0
of which: secured by residential properties		*1 972 552*	*1 459 404*	*13 141*	*1 959 411*	*13 141*	*0*	*0*	*0*	*0*
of which: non-financial corporations		4 672 019	4 016 297	97 700	4 570 331	67 564	8 617	20 695	707	4 105
of which: small and medium-sized enterprises		*3 170 522*	*2 665 001*	*84 787*	*3 082 247*	*55 160*	*8 617*	*20 695*	*707*	*3 097*
of which: secured by commercial real estate		*1 438 534*	*1 420 647*	*54 900*	*1 383 634*	*37 999*	*0*	*16 901*	*0*	*0*

Information on new loans and advances granted under new public guarantee systems introduced in response to the COVID-19 crisis

(in thousands of Euros)

	Gross carrying amount							Accumulated impairment, accumulated negative fair value changes resulting from credit risk							Maximum amount of collateral that can be taken into account	Gross carrying amount	Inflows for new financing
		Productive			Non Productive				Productive			Non Productive					
			of which: restructured	of which: instruments with significant increase in credit risk since initial recognition but no credit impairment (Stage 2)		of which: restructured	of which: reduced probability of payment that are not due or are past due <= 90 days			of which: restructured	of which: instruments with significant increase in credit risk since initial recognition but no credit impairment (Stage 2)		of which: restructured	of which: reduced probability of payment that are not due or are past due <= 90 days	Public guarantees received	Entries for non-productive exhibits	
New loans and advances subject to public guarantee systems	1 207 910	1 196 511	0	279 428	11 400	100	8 818	-8 897	-6 322	0	-5 008	-2 575	-5	-2 072	997 305	11 400	0
of which: households	0	0			0			0	0			0				0	
of which: secured by residential properties	*0*	*0*			*0*			*0*	*0*			*0*				*0*	
of which: non-financial corporations	1 206 081	1 194 682	0	279 428	11 400	100	8 818	-8 896	-6 321	0	-5 008	-2 575	-5	-2 072	995 792	11 400	0
of which: small and medium-sized enterprises	1 009 028	1 003 648			5 380			-6 280	-4 685			-1 595				5 380	
of which: secured by commercial real estate	2 018	2 018			0			-28	-28			0				0	

44.4 Market risk

Market Risk represents the potential loss resulting from an adverse change in the value of a financial instrument due to fluctuations in interest rates, foreign exchange rates, equity prices, commodity prices, volatility and credit spread.

Market risk management is integrated with the balance sheet management through the CALCO (Capital Asset and Liability Committee) structure, being this risk monitored by the Risk Committee.

The main measurement of market risk is the assessment of potential losses under adverse market conditions, for which the Value at Risk (VaR) methodology is used. novobanco Group's VaR model uses the Monte Carlo simulation, based on a confidence level of 99% and an investment period of 10 days. Volatilities and correlations are historical, based on an observation period of one year. As a complement to VaR, stress testing scenarios have been developed, which allow for the evaluation of the impact of losses potentially higher than those considered by the VaR measurement.

(in thousands of Euros)

	31.12.2021				31.12.2020			
	December	Annual average	Maximum	Minimum	December	Annual average	Maximum	Minimum
Exchange risk	2 494	1 983	3 451	826	915	2 187	6 215	757
Interest rate risk	31 454	24 522	41 240	10 628	14 433	35 495	70 332	14 433
Shares and commodities	3	33	225	0	183	192	378	80
Volatility	0	66	422	0	37	139	523	37
Credit spread	719	1 329	4 146	579	2 652	5 051	12 960	1 640
Diversification effect	(4 314)	(3 014)	(7 004)	1 388	(2 411)	(5 289)	(14 596)	(1 138)
Total	**30 356**	**24 919**	**42 480**	**13 421**	**15 809**	**37 775**	**75 812**	**15 809**

novobanco Group has a VaR of Euro 30,356 thousand (31 December 2020: Euro 15,809 thousand) in respect of its trading positions. The decrease is mainly explained by the decrease in the position in derivatives to hedge interest rate risk in the banking portfolio.

44.4.1. Interest Rate Risk

In accordance with the recommendations of European Banking Authority presented in the document EBA/GL/2018/02, novobanco Group calculates the exposure to its balance sheet interest rate risk based on the prescribed shocks, classifying all notional amounts of assets, liabilities and off-balance sheet captions which are sensitive to interest rate and are not part of the trading portfolio, by re-pricing intervals.

(in thousands of Euros)

	31.12.2021					
	Eligible amounts	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years
Loans to and deposits with banks	5 881 890	5 838 388	-	10 967	32 521	14
Loans and advances to customers	23 967 409	8 256 738	3 581 185	3 966 777	6 660 611	1 502 098
Securities	9 090 420	1 340 156	770 417	467 755	3 432 181	3 079 912
Other assets	399 920	399 920	-	-	-	-
Total						
Deposits from banks	10 741 465	5 675 517	4 697 002	78 751	130	290 066
Due to customers	27 944 598	16 740 547	2 331 540	3 941 600	3 676 897	1 254 015
Debt securities issued	2 583 780	4 234	6 476	293 808	698 276	1 580 987
Other liabilities	259 815	118 992	29 086	55 459	56 278	-
Total						
Balance sheet GAP (Assets - Liabilities)	(2 190 020)	(6 704 088)	(2 712 502)	75 881	5 693 733	1 456 955
Off-Balance sheet	(4 829)	2 875 288	814 390	(99 670)	(1 313 965)	(2 280 873)
Structural GAP	**(2 194 849)**	**(3 828 800)**	**(1 898 112)**	**(23 789)**	**4 379 769**	**(823 918)**
Accumulated GAP		**(3 828 800)**	**(5 726 911)**	**(5 750 700)**	**(1 370 931)**	**(2 194 849)**

(in thousands of Euros)

	31.12.2020					
	Eligible amounts	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years
Loans to and deposits with banks	2 761 847	2 706 153	4 150	12 088	39 456	-
Loans and advances to customers	25 513 997	9 063 624	3 709 340	3 159 080	6 930 509	2 651 443
Securities	9 618 019	1 365 092	335 434	702 515	4 045 230	3 169 748
Other assets	1 254 599	656 287	598 312	-	-	-
Total		**13 791 156**	**4 647 236**	**3 873 683**	**11 015 195**	**5 821 191**
Deposits from banks	10 078 636	5 328 425	3 959 431	350 779	214 911	225 089
Due to customers	28 556 210	15 019 258	2 729 378	4 455 507	6 312 032	40 035
Debt securities issued	2 579 547	38 502	875	1 784	-	2 538 386
Other liabilities	238 502	114 981	25 600	48 199	49 721	1
Total		**20 501 166**	**6 715 284**	**4 856 269**	**6 576 664**	**2 803 511**
Balance sheet GAP (Assets - Liabilities)	(2 304 432)	(6 710 010)	(2 068 048)	(982 586)	4 438 532	3 017 680
Off-Balance sheet	17 178	2 587 591	1 548 714	(121 465)	(1 807 383)	(2 190 279)
Structural GAP	**(2 287 254)**	**(4 122 419)**	**(519 334)**	**(1 104 051)**	**2 631 150**	**827 401**
Accumulated GAP		**(4 122 419)**	**(4 641 753)**	**(5 745 805)**	**(3 114 655)**	**(2 287 254)**

Sensitivity analyzes are carried out for the interest rate risk of the banking portfolio based on the current difference in the interest rate mismatch discounted at current rates and the discounted value of the same cash flows, through scenarios of displacement of the parallel yield curves (displacements of +/- 200 bp) and non-parallel (short rate shock up / down, steepener / flattener shocks), according to the outliers tests defined by the EBA.

(in thousands of Euros)

	31.12.2021					
	Parallel increase of 200 pb	Parallel decrease of 200 pb	Short Rate Shock Up	Short Rate Shock Down	Steepener shock	Flattener shock
As at 31 December	95 122	(11 629)	(65 505)	64 401	100 431	(159 934)
Exercise average	24 364	22 301	(68 842)	66 386	62 974	(99 945)
Exercise maximum	95 122	37 393	(65 229)	73 334	100 431	(65 726)
Exercise minimum	(6 001)	(11 629)	(73 380)	62 405	44 158	(159 934)

(in thousands of Euros)

	31.12.2020					
	Parallel increase of 200 pb	Parallel decrease of 200 pb	Short Rate Shock Up	Short Rate Shock Down	Steepener shock	Flattener shock
As at 31 December	(71 576)	52 191	(87 671)	49 728	13 859	8 430
Exercise average	109 070	(13 786)	109 047	(16 353)	(83 437)	106 919
Exercise maximum	216 808	52 191	235 284	49 728	13 859	182 690
Exercise minimum	(71 576)	(57 778)	(87 671)	(85 746)	(180 041)	8 430

44.4.2 IBOR Reform

As part of the implementation of the Commission Regulation (EU) 2021/25 of 13 January 2021 - Reform of reference interest rates, which led to the transition from EONIA to € STR, during 2020, the Group changed the discount curve of its positions in derivative financial instruments cleared with central counterparty (CCP) from EUR OIS to EUR € STR and from USD OIS to USD SOFR. With regard to bilateral derivatives, during 2021 the Group renegotiated several CSA agreements to change to risk free rate curves, and in cases where no agreement was reached the curves were changed to EUR EURSTR + 8.5 basis points. According to the implementation principle of the referred regulation, of not occurring substantial changes to the original objective of risk management or discontinuation of the hedging relationships, the Group did not record relevant impacts on the retrospective and prospective effectiveness, taking into account that all assets and liabilities involved in the hedging relationships were subject to the same change (hedged and hedging items). Regarding other financial instruments, taking into consideration the reduced exposure of the Group to instruments in foreign currency, there were no relevant impacts.

The following table presents the average interest rates for the Group's major financial asset and liability categories, as at 31 December 2021 and 2020, as well as the respective average balances and interest for the exercise:

(in thousands of Euros)

	31.12.2021			31.12.2020		
	Average balance of the period	Interest of the exercise	Average interest rate	Average balance of the period	Interest of the exercise	Average interest rate
Monetary assets	4 601 590	2 148	0.05%	2 993 238	16 361	0.54%
Loans and advances to customers	24 994 703	506 745	2.00%	24 939 140	534 229	2.11%
Securities and other	10 241 464	132 769	1.28%	10 664 515	136 602	1.26%
Financial assets and differentials	**39 837 757**	**641 662**	**1.59%**	**38 596 893**	**687 192**	**1.76%**
Monetary Liabilities	10 496 796	(68 036)	-0.64%	9 913 212	(23 410)	-0.23%
Due to customers	26 580 488	51 328	0.19%	25 787 192	71 688	0.27%
Differential liabilities	1 690 086	14 076	0.00%	1 815 289	10 128	0.00%
Financial liabilities and differentials	**39 837 757**	**68 268**	**0.17%**	**38 596 893**	**132 058**	**0.34%**
Net interest income		**573 394**	**1.42%**		**555 134**	**1.42%**

44.4.3 Foreign Exchange Risk

Regarding foreign exchange risk, the breakdown of assets and liabilities, by currency, as at 31 December 2021 and 2020, is analysed as follows:

(in thousands of Euros)

		31.12.2021				31.12.2020			
		Spot	Forward	Other elements	Net exposure	Spot	Forward	Other elements	Net exposure
USD	UNITED STATES DOLLAR	(176 696)	169 546	(15)	(7 165)	(754 078)	780 879	99	26 900
GBP	GREAT BRITISH POUND	(42 582)	47 842	-	5 260	(66 761)	69 964	(2 067)	1 136
BRL	BRAZILIAN REAL	783	-	-	783	73 444	(72 362)	-	1 082
MOP	MACAO PATACA	2 261	-	-	2 261	2 127	-	-	2 127
JPY	JAPANESE YEN	(1 340)	2 310	-	970	(133)	-	2 067	1 934
CHF	SWISS FRANC	(13 138)	16 281	-	3 143	(8 540)	10 903	-	2 363
SEK	SWEDISH KRONE	19 782	(19 077)	-	705	19 612	(19 334)	-	278
NOK	NORWEGIAN KRONE	54 399	(54 035)	-	364	46 751	(46 086)	-	665
CAD	CANADIAN DOLLAR	(17 728)	21 502	-	3 774	(621)	3 518	-	2 897
ZAR	SOUTH AFRICAN RAND	1 129	(1 207)	-	(78)	(35)	(230)	-	(265)
AUD	AUSTRALIAN DOLLAR	10 257	(9 990)	-	267	5 053	(4 615)	-	438
VEB	VENEZUELAN BOLIVAR	2	-	-	2	1	-	-	1
PLN	POLISH ZLOTY	36 100	(35 643)	-	457	28 281	(29 125)	-	(844)
MAD	MOROCCAN DIRHAN	(2 996)	2 936	-	(60)	(3 081)	2 984	-	(97)
MXN	MEXICAN PESO	(13)	9	-	(4)	(197)	373	-	176
AOA	ANGOLAN KWANZA	(1)	-	-	(1)	8 781	-	-	8 781
CVE	CAPE VERDEAN ESCUDO	(146)	-	-	(146)	(81)	-	-	(81)
HKD	HONG-KONG DOLLAR	(1 916)	2 434	-	518	(1 545)	1 766	-	221
CZK	CZECH KORUNA	16 208	(17 041)	-	(833)	9 573	(9 979)	-	(406)
DZD	ALGERIAN DINAR	5 507	-	-	5 507	4 447	-	-	4 447
CNY	YUAN REN-MIN-BI	51 352	(50 975)	-	377	9 427	(9 487)	-	(60)
	OTHER	(7 802)	6 785	-	(1 017)	(16 072)	(11 306)	-	(27 378)
		(66 578)	**81 677**	**(15)**	**15 084**	**(643 647)**	**667 863**	**99**	**24 315**

Note: assets / (liabilities)

44.5 Liquidity Risk

Liquidity risk is the current or future risk that arises from an institution's inability to meet its liabilities as they mature, without incurring substantial losses.

Liquidity risk can be divided into two types:

- Liquidity of assets (market liquidity risk) - consists in the impossibility of selling a certain type of asset due to the lack of liquidity in the market, which translates into the widening of the bid / offer spread or the application of a haircut to the market value;
- Financing (funding liquidity risk) - consists of the impossibility of financing the assets in the market and / or refinancing the debt that is maturing, in the terms and in the desired currency. This impossibility can be reflected through a strong increase in the cost of financing or the requirement for collateral to obtain funds. The difficulty of (re) financing can lead to the sale of assets, even if incurring significant losses. The risk of (re) financing must be minimized through an adequate diversification of funding sources and maturity terms.

Banks are subject to liquidity risk due to their maturity transformation business (long-term lenders and short-term depositors), so prudent liquidity risk management is therefore crucial.

As at 31 December 2021, the value of the asset portfolio eligible as collateral for rediscounting operations with the ECB, after haircuts, amounted to Euro 16.5 billion (31 December 2020: Euro 16.7 billion). This amount includes all the exposure to Portuguese sovereign debt, in the total amount of approximately Euro 2.5 billion (31 December 2020: Euro 2.5 billion).

During 2021, gross financing from the ECB increased by Euro 974 million to a total of Euro 8.0 billion (2020: increase in the amount of Euro 910 million for a total of Euro 7.0 billion).

The liquidity of novobanco Group is managed in a centralized manner, in the Headquarters, for the prudential consolidation perimeter, and the analysis and decision making made based on the mismatch reports, which allow, not only to identify negative mismatches but also to make a dynamic hedging of those mismatches. As at 31 December 2021 and 2020, the calculation of the liquid contractual deficit and the counterbalancing capacity was performed following the ITS (Implementing Technical Standards) rules:

(in thousands of Euros)

	31.12.2021						
	Total	Up to 7 days	7 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	More than 1 year
OUTPUT							
Liabilities from emited transferable securities (if they're not treated as retail deposits)	756 943	-	-	-	-	22 055	734 888
Liabilities from guaranteed lending operations and operations associated to financial markets	9 948 705	-	626 980	52 669	-	2 514 555	6 754 500
Behavioral output from deposits	29 491 108	390 972	86 929	93 663	116 964	296 774	28 505 805
Exchange swaps and derivatives	567 652	5 940	45 222	423 127	43 099	25 964	24 299
Other output	478 049	-	-	-	11 515	33 814	432 720
Total Output	**41 242 456**	**396 912**	**759 132**	**569 460**	**171 578**	**2 893 163**	**36 452 212**
INPUT							
Secured lending operations and operations associated to financial markets	172 139	-	-	-	-	40 991	131 148
Behavioral inputs from loans and advances	32 363 686	5 164 062	2 244	5 177	14 194	15 125	27 162 885
Exchange swaps and derivatives	721 805	7 824	40 849	422 980	61 078	39 323	149 751
Own portfolio securities maturing and other entries	10 385 672	147 916	130 887	503 691	707 936	607 880	8 287 362
Total Input	**43 643 303**	**5 319 802**	**173 980**	**931 848**	**783 208**	**703 320**	**35 731 145**
Net contractual deficit	2 400 846	4 922 890	(585 152)	362 388	611 630	(2 189 843)	(721 067)
Accumulated net contractual deficit		**4 922 890**	**4 337 738**	**4 700 126**	**5 311 756**	**3 121 913**	**2 400 846**

CAPACITY TO READJUSTMENT	*Stock* Inicial	Up to 7 days	7 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	More than 1 year
Cash	151 699						
Deployable reserves from the central bank	4 999 674	(4 999 674)					
Negotiable and non-negotiable assets eligible for the central bank	7 261 006	-	432 159	(326 174)	(537 314)	(451 865)	(6 233 780)
Authorized facilities and not utilized received	(0)	(42 401)	(73 498)	(226 102)	(281 873)	1 314 154	(690 281)
Net variation of capacity to adjustment		(5 042 075)	358 662	(552 276)	(819 187)	862 289	(6 924 061)
Accumulated capacity to readjustment	**12 412 379**	**7 370 304**	**7 728 966**	**7 176 690**	**6 357 503**	**7 219 792**	**295 731**

(in thousands of Euros)

	31.12.2020						
	Total	Up to 7 days	7 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	More than 1 year
OUTPUT							
Liabilities from emited transferable securities (if they're not treated as retail deposits)	153 890	-	-	-	-	9	153 881
Liabilities from guaranteed lending operations and operations associated to financial markets	9 161 995	68 874	106 104	53 504	150 000	264 458	8 519 055
Behavioral output from deposits	30 328 564	302 562	116 570	147 268	174 392	423 579	29 164 193
Exchange swaps and derivatives	625 680	110 144	144 781	283 894	32 623	34 865	19 374
Other output	550 075			140 000	11 515		398 560
Total Output	**40 820 205**	**481 581**	**367 455**	**624 665**	**368 530**	**722 911**	**38 255 064**
INPUT							
Secured lending operations and operations associated to financial markets	203 306	60 917	-	-	-	-	142 389
Behavioral inputs from loans and advances	30 107 412	2 106 702	58 182	166 741	236 943	472 123	27 066 721
Exchange swaps and derivatives	897 438	103 389	145 071	287 285	48 500	71 166	242 026
Own portfolio securities maturing and other entries	12 128 378	103 580	155 916	376 999	835 242	898 046	9 758 595
Total Input	**43 336 534**	**2 374 589**	**359 168**	**831 025**	**1 120 685**	**1 441 335**	**37 209 731**
Net contractual deficit	2 516 329	1 893 008	(8 286)	206 360	752 156	718 425	(1 045 332)
Accumulated net contractual deficit		**1 893 008**	**1 884 722**	**2 091 081**	**2 843 237**	**3 561 662**	**2 516 329**
CAPACITY TO READJUSTMENT	Stock Inicial	Up to 7 days	7 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	More than 1 year
Cash	149 205						
Deployable reserves from the central bank	2 030 915	(2 030 915)					
Negotiable and non-negotiable assets eligible for the central bank	8 033 197	67 249	106 994	(123 762)	(91 281)	(587 185)	(7 262 493)
Authorized facilities and not utilized received		(29 275)	(55 212)	(199 759)	(350 461)	(288 680)	923 388
Net variation of capacity to adjustment		(1 992 941)	51 782	(323 521)	(441 743)	(875 865)	(6 339 104)
Accumulated capacity to readjustment	**10 213 317**	**8 220 376**	**8 272 158**	**7 948 636**	**7 506 894**	**6 631 029**	**291 924**

As at 31 December 2020, there was an accumulated 1-year net contractual surplus of Euro 3,562 million, having shifted at the end of 2021 to an accumulated 1-year net contractual deficit of Euro 3,122 million. This improvement is due to that, at the end of 2021, there was a Euro 1,627 million takeover to the ECB in less than 1 year.

The 1-year counterbalancing capacity the end of 2021 was Euro 7,220 million, Euro 589 million more than the figure recorded at the end of 2020 (Euro 6,631 million).

In order to anticipate possible negative impacts, internal liquidity stress scenarios representative of the types of crisis that may occur are carried out, based on idiosyncratic scenarios (characterized by a loss of confidence in the Bank), and market scenarios.

In addition, and given the importance of liquidity risk management, the regulatory legislation includes a liquidity coverage ratio (Liquidity Coverage Ratio - LCR) and a stable financing ratio (Net Stable Funding Ratio - NSFR). The LCR aims to promote banks' resilience to short-term liquidity risk, ensuring that they hold high-quality liquid assets, sufficient to survive a severe stress scenario, for a period of 30 days, while the NSFR aims to ensure that Banks maintain stable financing for their assets and off-balance sheet operations, for a period of one year.

The average LCR for the 12 months of 2021 was 150% which compares to 146% in 2020. The NSFR in turn stood at 117% on December 31, 2021 which compares to 112% at the end of 2020.

In accordance with current regulatory legislation, the Group is obliged to comply with a minimum limit of 100% in the LCR and NSFR.

The information on encumbered and unencumbered assets, as defined by Instruction no. 28/2014 of Bank of Portugal (note that this information is prepared from a prudential perspective, where the consolidation perimeter differs from that used in the financial statements presented) is shown in the table below:

(in thousands of Euros)

Assets	31.12.2021 Carrying book value of encumbered assets	31.12.2021 Fair value of encumbered assets	31.12.2021 Carrying book value of unencumbered assets	31.12.2021 Fair value of unencumbered assets
Assets of the institution	**13 890 508**	**n/a**	**31 052 745**	**n/a**
Equity instruments	-	-	1 754 771	1 754 771
Debt securities	2 306 980	2 306 980	7 361 758	7 361 758
Other assets	11 583 528	n/a	21 936 216	n/a

(in thousands of Euros)

Assets	31.12.2020 Carrying book value of encumbered assets	31.12.2020 Fair value of encumbered assets	31.12.2020 Carrying book value of unencumbered assets	31.12.2020 Fair value of unencumbered assets
Assets of the institution	**12 868 205**	**n/a**	**31 849 466**	**n/a**
Equity instruments	-	-	1 866 679	1 866 679
Debt securities	1 999 618	1 999 618	8 500 364	8 500 364
Other assets	10 868 587	n/a	21 482 423	n/a

(in thousands of Euros)

Collateral received	31.12.2021 Fair value of encumbered collateral received or of own debt securities issued	31.12.2021 Fair value of collateral received or of own debt securities issued and encumberable	31.12.2020 Fair value of encumbered collateral received or of own debt securities issued	31.12.2020 Fair value of collateral received or of own debt securities issued and encumberable
Collateral received	**-**	**-**	**-**	**-**
Equity instruments	-	-	-	-
Debt securities	-	-	-	-
Other collateral received	-	-	-	-
Own debt securities issued other than own covered bonds or ABS	**-**	**-**	**-**	**-**

(in thousands of Euros)

Encumbered assets, encumbered collateral received and associated liabilities	31.12.2021 Associated liabilities, contingent liabilities and securities loaned	31.12.2021 Assets, collateral received and own debt securities issued other than encumbered own covered bonds or ABS	31.12.2020 Associated liabilities, contingent liabilities and securities loaned	31.12.2020 Assets, collateral received and own debt securities issued other than encumbered own covered bonds or ABS
Carrying book value of the selected financial liabilities	10 115 522	13 890 508	9 250 342	12 868 205

The encumbered assets are represented essentially by credits and securities used in financing operations with the ECB, in repo operations, in mortgage bond issues and in securitizations. There are also assets given in collateral to hedge the Bank's counterparty risk in derivative transactions.

44.6 Operational risk

Operational risk generally translates into the probability of the occurrence of events with negative impacts, in the results or in the capital, resulting from the inadequacy or deficiency of procedures and information systems, the behavior of people or motivated by external events, including legal risks. Thus, operational risk is understood as the calculation of the following risks: operational, information systems, compliance and reputation.

For the management of operational risk, a system was developed and implemented to ensure the uniformity, systematization and recurrence of the activities for the identification, monitoring, control and mitigation of this risk. This system is supported by an organizational structure, integrated in the Global Risk Department exclusively dedicated to this task, as well as by Operational Risk Management Representatives designated by each of the departments, branches and subsidiaries considered relevant, which are responsible for complying with the procedures. and the day-to-day management of this Risk in its areas of competence.

44.7 Capital Management and Solvency Ratio

The main objective of the Group's capital management is to ensure compliance with the Group novobanco's strategic objectives in terms of capital adequacy, respecting and enforcing the requirements for calculating risk-weighted assets and own funds and ensuring compliance with the levels of solvency and leverage defined by the supervisory entities, in particular by the European Central Bank (ECB) – the entity directly responsible for the supervision of novobanco - and by the Bank of Portugal, and internally stipulated risk appetite for capital metrics.

The definition of the strategy for capital adequacy management rests with the Executive Board of Directors and is integrated in the global definition of novobanco Group objectives.

The capital ratios of novobanco Group are calculated based on the rules defined in Directive 2013/36/EU and Regulation (EU) nº 575/2013 (CRR) that define the criteria for the access to the credit institution and investment company activity and determine the prudential requirements to be observed by those same entities, in particular to the calculation of the ratios mentioned above.

novobanco Group is authorized to apply the Internal Ratings-Based Approach (IRB) for the calculation of risk weighted assets by credit risk. In particular, the IRB method is applied to the exposure classes of institutions, corporate and retail of novobanco Group. The equity' risk classes, the positions taken in the form of securitization, the positions taken in the form of participation units in investment funds, and the elements that are not credit obligations are always handled by the IRB method regardless of novobanco's entities in which the respective exposures are recorded. The standard method is used in the determination of risk weighted assets by market and operational risks.

The regulatory capital components considered in the determination of solvency ratios are divided into own funds of level 1 (common equity Tier I or CET I), additional own funds of level 1 (additional Tier I) which combined with the CET I constitute the own funds of level I (Tier I), and own funds of level 2 (or Tier II) which added to the Tier I represent the total own funds.

The total own funds of novobanco Group are composed by elements of CET I and Tier II

Additional information on the evolution and composition of novobanco Group's capital ratios can be found in the Group's Market Discipline Document (point 3. Capital Adequacy).

The summary of own funds, risk weighted assets and capital ratios capital of novobanco Group as at 31 December 2021 and 2020 are presented in the following table:

(in million Euros)

		31.12.2021[4]	31.12.2020[1]
Realised ordinary share capital, issue premiums and own shares		6 055	5 900
Reserves and Retained earnings		(3 109)	(1 447)
Net income for the year attributable to shareholders of the Bank		159	(1 329)
Non-controlling interests (minorities)		19	17
A - Equity (prudential perspective)		**3 124**	**3 141**
Net income for the year attributable to shareholders of the Bank not eligible		-	-
Non-controlling interests (minorities)		(13)	(10)
Adjustments of additional valuation		(10)	(11)
Transitional period to IFRS9		237	356
Goodwill and other intangibles		(69)	(57)
Insufficiency of provisions given the expected losses		(8)	(59)
Deferred tax assets and shareholdings in financial companies		(168)	(62)
Other[2]		(325)	(395)
B - Regulatory adjustments to equity		**(357)**	**(240)**
C - Own principal funds level 1 - CET I (A+B)		**2 768**	**2 902**
Other eligible instruments for additional Tier 1		1	1
D - Additional own funds Level 1 - Additional Tier 1		**1**	**1**
E - Level 1 own funds - Tier I (C+D)		**2 769**	**2 903**
Subordinated liabilities elegible for Tier II		399	399
Other elements elegible for Tier II		108	113
Regulatory adjustments for Tier II		-	-
F - Level 2 own funds - Tier II		**507**	**511**
G - Eligible own funds (E+F)		**3 276**	**3 415**
Credit risk		22 043	23 819
Market risk		1 207	1 279
Operational risk		1 678	1 592
H - Risk Weighted Assets		**24 929**	**26 689**
Solvability ratio			
CET I ratio	**(C/H)**	**11.1%**	**10.9%**
Tier I ratio	**(E/H)**	**11.1%**	**10.9%**
Solvability ratio	**(G/H)**	**13.1%**	**12.8%**
Leverage ratio[3]		**6.0%**	**6.2%**

(1) Restated values with references to 2020.

(2) Since the end of 2020 includes adjustments to CCA receivable, reflected at reserve level, and not received from the Resolution Fund.

(3) The leverage ratio results from dividing Tier 1 by the exposure measure in accordance to the terms of the CRR.

(4) Provisional values.

NOTE 45 – NPL DISCLOSURES

Following the recommendations of the European Banking Authority explained in document EBA/GL/2018/10, credit institutions with an NPL (Non Performing Exposures) ratio greater than 5% must publish a set of information regarding NPE, restructured loans and foreclosed assets, according to a standard format, which we present below (we emphasize that this information is prepared from a prudential perspective, whose consolidation perimeter differs from the consolidation perimeter of the financial statements presented):

Credit quality of forborne exposure

(in thousands of Euros)

	Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
	Performing forborne	Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on nonperforming exposures with forbearance measures
			Of which defaulted	Of which subject to impairment				
Loans and advances	666 511	913 102	913 102	913 102	-78 116	-524 660	671 678	294 761
Central banks	0	0	0	0	0	0	0	0
General governments	5 650	52	52	52	-525	-52	4 611	0
Credit institutions	0	0	0	0	0	0	0	0
Other financial corporations	431	90 559	90 559	90 559	-16	-31 848	49 742	49 447
Non-financial corporations	524 708	670 482	670 482	670 482	73 339	-366 988	469 936	221 074
Households	135 722	152 009	152 009	152 009	-4 301	-125 772	147 389	24 239
Debt securities	0	0	0	0	0	0	0	0
Loan commitments given	4 169	1 711	1 711	1 711	0	0	0	0
Total	**670 679**	**914 813**	**914 813**	**914 813**	**-78 181**	**-524 660**	**671 678**	**294 761**

Credit quality of performing and non-performing exposures by past due days

(in thousands of Euros)

	Gross carrying amount/nominal amount											
	Performing exposures			Non-performing exposures								
		Not past due or past due < =30 days	Past due > 30 days <=90 days		Unlikely to pay that are not past due or are past due <=90 days	Past due > 90 days <=180 days	Past due > 180 days <=1 year	Past due > 1 year <= 2 years	Past due > 2 years >=5 years	Past due > 5 years >=7 years	Past due > 7 years	Of which defaulted
Cash in Central Banks	**5 705 902**	**5 705 902**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Loans and advances	**23 198 185**	**23 027 830**	**170 355**	**1 767 078**	**1 260 055**	**55 493**	**62 104**	**89 584**	**125 799**	**77 292**	**96 751**	**1 765 833**
Central banks	**0**	0	0	**0**	0	0	0	0	0	0	0	0
General governments	**380 732**	380 732	0	**1 712**	52	0	1 250	0	410	0	0	1 712
Credit institutions	**50 909**	50 909	0	**0**	0	0	0	0	0	0	0	0
Other financial corporations	**318 725**	294 155	24 570	**98 841**	79 049	1	247	17	9 015	2 901	7 611	98 841
Non-financial corporations	**11 622 071**	11 518 652	103 419	**1 304 531**	904 274	40 532	40 568	71 931	106 134	69 273	71 820	1 304 531
Of which SMEs	***6 800 621***	*6 743 662*	*56 959*	***838 818***	*585 363*	*35 646*	*36 691*	*11 546*	*64 644*	*48 516*	*56 411*	*838 818*
Households	**10 825 747**	10 783 382	42 365	**361 993**	276 681	14 960	20 039	17 636	10 240	5 118	17 319	360 748
Debt securities	**9 467 651**	**9 467 651**	**0**	**337 335**	**197 797**	**0**	**0**	**15 179**	**39 534**	**84 825**	**0**	**337 335**
Central banks	**0**	0	0	**0**	0	0	0	0	0	0	0	0
General governments	**6 142 095**	6 142 095	0	**0**	0	0	0	0	0	0	0	0
Credit institutions	**693 578**	693 578	0	**0**	0	0	0	0	0	0	0	0
Other financial corporations	**710 489**	710 489	0	**22 770**	0	0	0	0	20 420	2 350	0	22 770
Non-financial corporations	**1 921 489**	1 921 489	0	**314 565**	197 797	0	0	15 179	19 114	82 475	0	314 565
Off-balance-sheet exposures	**8 062 905**			**454 376**								**454 376**
Central banks	0			0								0
General governments	36 776			0								0
Credit institutions	560 030			259								259
Other financial corporations	75 163			8 878								8 878
Non-financial corporations	6 306 918			442 894								442 894
Households	1 084 018			2 345								2 345
Total	**46 434 643**	**38 201 383**	**170 355**	**2 558 788**	**1 457 852**	**55 493**	**62 104**	**104 763**	**165 333**	**162 117**	**96 751**	**2 557 543**

Performing and non-performing exposures and related provisions

(in thousands of Euros)

	Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
	Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Das quais, *Stage 1*	Das quais, *Stage 2*		Das quais, *Stage 2*	Das quais, *Stage 3*			
Cash in Central Banks	**5 705 902**	**5 705 902**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Loans and advances	**23 198 185**	**18 759 615**	**4 436 886**	**1 767 078**	**0**	**1 767 078**	**-386 911**	**-64 245**	**-322 667**	**-879 346**	**0**	**-879 346**	**-429 807**	**13 448 418**	**571 191**
Central banks	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
General governments	380 732	361 649	19 083	1 712	0	1 712	-1 604	-529	-1 075	-1 712	0	-1 712	0	35 935	0
Credit institutions	50 909	44 232	6 677	0	0	0	-1 113	-659	-454	0	0	0	0	0	0
Other financial corporations	318 725	256 309	62 417	98 841	0	98 841	-9 403	-1 435	-7 968	-36 277	0	-36 277	-186 642	172 277	51 324
Non-financial corporations	11 622 071	8 290 059	3 332 012	1 304 531	0	1 304 531	-324 005	-46 258	-277 747	-656 232	0	-656 232	-242 416	3 374 095	367 616
Of which SMEs	6 800 621	4 972 144	1 828 477	838 818	0	838 818	-148 357	-31 287	-117 070	-403 428	0	-403 428	-80 112	2 465 189	255 987
Households	10 825 747	9 807 366	1 018 381	361 993	0	361 993	-50 786	-15 364	-35 422	-185 125	0	-185 125	-749	9 866 111	151 726
Debt securities	**9 467 651**	**9 292 175**	**175 476**	**337 335**	**2 378**	**334 957**	**-47 470**	**-9 187**	**-38 283**	**-203 243**	**0**	**-203 243**	**0**	**0**	**0**
Central banks	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
General governments	6 142 095	6 142 095	0	0	0	0	-3 586	-3 586	0	0	0	0	0	0	0
Credit institutions	693 578	693 578	0	0	0	0	-248	-248	0	0	0	0	0	0	0
Other financial corporations	710 489	707 452	3 037	22 770	0	22 770	-1 493	-1 105	-388	0	0	0	0	0	0
Non-financial corporations	1 921 489	1 749 050	172 439	314 565	2 378	312 187	-42 143	-4 248	-37 895	-203 243	0	-203 243	0	0	0
Off-balance-sheet exposures	**8 062 905**	**6 807 794**	**1 255 111**	**454 376**	**0**	**454 376**	**19 197**	**8 046**	**11 151**	**73 150**	**0**	**73 150**		**169 155**	**14 705**
Central banks	0	0	0	0	0	0	0	0	0	0	0	0		0	0
General governments	36 776	35 558	1 218	0	0	0	34	11	23	0	0	0		4 266	0
Credit institutions	560 030	515 342	44 688	259	0	259	229	19	210	0	0	0		6 114	43
Other financial corporations	75 163	56 832	18 331	8 878	0	8 878	128	44	84	3 295	0	3 295		8 871	0
Non-financial corporations	6 306 918	5 132 767	1 174 151	442 894	0	442 894	14 634	4 097	10 537	69 684	0	69 684		138 886	14 602
Households	1 084 018	1 067 295	16 723	2 345	0	2 345	4 172	3 875	296	171	0	171		11 018	61
Total	**46 434 643**	**40 565 486**	**5 869 157**	**2 558 788**	**2 378**	**2 556 410**	**-415 068**	**-65 386**	**-349 799**	**-1 009 439**	**0**	**-1 009 439**	**-429 807**	**13 617 573**	**585 896**

Quality of non-productive exhibitions by geography

(in thousands of Euros)

	Gross carrying amount/nominal amount				Accumulated impairment	Provisions on off-balance-sheet commitments and financial guarantees given	Accumulated negative changes in fair value due to credit risk on non-performing exposures
		Of which non-performing		Of which subject to impairment			
			Of which defaulted				
On-balance-sheet exposures	**34 770 248**	**2 104 413**	**2 104 413**	**34 715 288**	**-1 516 971**		**0**
Portugal	26 482 718	1 909 643	1 909 643	26 469 514	-1 373 740		0
Other countries	8 287 530	194 769	194 769	8 245 774	-143 231		0
Off-balance-sheet exposures	**8 517 281**	**454 376**	**454 376**			**92 347**	
Portugal	7 996 918	452 231	452 231			90 100	
Other countries	520 363	2 145	2 145			2 247	
Total	**43 287 529**	**2 558 788**	**2 558 788**	**34 715 288**	**-1 516 971**	**92 347**	0

Credit quality of loans and advances by industry

(in thousands of Euros)

	Gross carrying amount				Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures
		Of which non-performing		Of which loans and advances subject to impairment		
			Of which defaulted			
Agriculture, forestry and fishing	345 627	8 738	8 738	345 627	-11 945	0
Mining and quarrying	44 482	140	140	44 482	-459	0
Manufacturing	2 674 309	143 597	143 597	2 674 309	-107 323	0
Electricity, gas, steam and air conditioning supply	280 807	16 795	16 795	280 807	-4 043	0
Water supply	185 030	13 446	13 446	185 030	-9 520	0
Construction	1 381 721	180 792	180 792	1 381 721	-120 319	0
Wholesale and retail trade	1 503 999	84 200	84 200	1 503 999	-63 342	0
Transport and storage	851 326	58 548	58 548	851 326	-67 454	0
Accommodation and food service activities	1 115 252	185 908	185 908	1 115 252	-131 690	0
Information and communication	138 601	8 157	8 157	138 601	-7 860	0
Financial and insurance activities	632 558	97 904	97 904	632 558	-116 256	0
Real estate activities	1 451 105	226 236	226 236	1 451 105	-131 685	0
Professional, scientific and technical activities	1 320 537	89 976	89 976	1 320 537	-68 732	0
Administrative and support service activities	330 595	22 173	22 173	330 595	-23 933	0
Public administration and defence, compulsory social security	2 327	20	20	2 327	-46	0
Education	49 770	3 043	3 043	49 770	-1 820	0
Human health services and social work activities	246 636	40 994	40 994	246 636	-19 973	0
Arts, entertainment and recreation	223 680	92 649	92 649	223 680	-67 258	0
Other services	148 241	31 215	31 215	148 241	-26 579	0
Total	**12 926 603**	**1 304 531**	**1 304 531**	**12 926 303**	**-980 237**	**0**

Collateral valuation – loans and advances

(in thousands of Euros)

	Loans and advances											
		Performing		Non-performing								
			Of which past due > 30 days <=90 days		Unlikely to pay that are not past due or are past due <= 90 days	Past due > 90 days						
							Of which past due >90 days <= 180 days	Of which: past due > 180 days <= 1 year	Of which: past due > 1 years <= 2 years	Of which: past due > 2 years <= 5 years	Of which: past due > 5 years <= 7 years	Of which: past due > 7 years
Gross carrying amount	**24 965 262**	23 198 185	170 355	**1 767 078**	1 260 055	**507 022**	55 493	62 104	89 584	125 799	77 292	96 751
Of which secured	**16 121 730**	15 010 118	52 585	**1 111 612**	815 500	**296 112**	38 449	41 123	53 775	68 459	21 971	72 335
Of which secured with immovable property	**13 664 886**	12 856 614	52 509	**808 272**	547 249	**261 024**	37 050	40 544	52 111	54 518	18 059	58 741
Of which instruments with LTV higher than 60% and lower or equal to 80%	**2 630 165**	2 489 391		**140 774**	83 556	57 218						
Of which instruments with LTV higher than 80% and lower or equal to 100%	**687 067**	578 300		**108 767**	100 012	8 755						
Of which instruments with LTV higher than 100%	**868 813**	557 094		**311 720**	218 044	93 675						
Accumulated impairment for secured assets	**-706 396**	-226 127	-3 094	**-480 269**	-354 076	**-126 193**	-20 184	-17 982	-23 491	-26 445	-7 183	-30 908
Collateral												
Of which value capped at the value of exposure	**13 969 255**	13 411 915	48 591	**557 340**	393 125	**164 215**	17 686	21 961	29 938	40 238	13 213	41 178
Of which immovable property	**12 882 506**	12 409 483	48 530	**473 023**	330 073	**142 950**	17 425	21 916	29 455	33 294	11 714	29 145
Of which value above the cap	**24 580 690**	23 178 272	55 348	**1 402 417**	690 295	**712 122**	38 118	30 259	91 671	157 434	133 936	260 704
Of which immovable property	**16 973 310**	16 424 156	55 036	**549 154**	327 083	**222 071**	18 822	29 316	76 103	23 870	17 349	56 612
Financial guarantees received	**50 354**	37 047	5	**13 308**	12 397	**911**	500	307	100	4	0	0
Accumulated partial write-off	**-429 807**	-5	-5	**-429 802**	-40	**-429 762**	0	-1 891	-1 482	-67 013	-253 864	-105 511

Changes in the stock of non-performing loans and advances

(in thousands of Euros)

	Gross carrying amount
Initial stock of non-performing loans and advances	2 512 984
Inflows to non-performing portfolios	484 303
Outflows from non-performing portfolios	-1 230 209
Outflow to performing portfolio	-58 875
Outflow due to loan repayment, partial or total	-194 938
Outflow due to collateral liquidation	0
Outflow due to taking possession of collateral	-21 739
Outflow due to sale of instruments	-380 535
Outflow due to risk transfer	0
Outflow due to write-off	-432 517
Outflow due to other situations	-41 668
Outflow due to reclassification as held for sale	0
Final stock of non-performing loans and advances	1 767 078

Collateral obtained by taking possession and execution processes

(in thousands of Euros)

	Collateral obtained by taking possession	
	Value at initial recognition	Accumulated negative changes
Property, plant and equipment (PP&E)	**0**	**0**
Other than PP&E	**442 520**	**-205 141**
Residential immovable property	100 227	-28 394
Commercial Immovable property	247 005	-152 969
Movable property (auto, shipping, etc.)	3 189	-2 180
Equity and debt instruments	64 706	-10 576
Other	27 394	-11 022
Total	**442 520**	**-205 141**

Collateral obtained by taking possession and execution processes – vintage breakdown

(in thousands of Euros)

	Total collateral obtained by taking possession									
			Foreclosed <=2 years		Foreclosed > 2 years <=5 years		Foreclosed > 5 years		Of which non-current assets held-for-sale	
	Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes	Value at initial recognition	Accumulated negative changes
Collateral obtained by taking possession classified as PP&E	0	0								
Collateral obtained by taking possession other than that classified as PP&E	**442 520**	**-205 141**	**75 251**	**-17 487**	**110 943**	**-64 971**	**256 325**	**-122 684**	**0**	**0**
Residential immovable property	100 227	-28 394	11 229	-1 133	26 948	-6 716	62 050	-20 545	0	0
Commercial immovable property	247 005	-152 969	20 644	-1 267	73 208	-51 550	153 152	-100 152	0	0
Movable property (auto, shipping, etc.)	3 189	-2 180	1 142	-194	0	0	2 047	-1 987	0	0
Equity and debt instruments	64 706	-10 576	14 843	-3 871	10 787	-6 705	39 076	0	0	0
Other	27 394	-11 022	27 394	-11 022	0	0	0	0	0	0
Total	**442 520**	**-205 141**	**75 251**	**-17 487**	**110 943**	**-64 971**	**256 325**	**-122 684**	**0**	**0**

NOTE 46 –INSURANCE AND REINSURANCE MEDIATION SERVICES

As of December 31, 2021 and 2020, the compensation arising from the provision of insurance or reinsurance mediation services has the following composition:

(in thousands of Euros)

	31.12.2021	31.12.2020
Life Insurance		
Unit Link and other life commissions	1 828	1 832
Credit protection insurance (life)	841	670
Traditional Products	15 672	16 090
	18 341	**18 592**
Non-Life Insurance		
Personal lines insurance	7 593	6 803
Corporate insurance	178	193
Credit protection insurance (non-life)	2 274	928
	10 045	**7 924**
	28 386	**26 516**

Note: the income presented is net of accruals

The Group does not collect insurance premiums on behalf of the Insurers, nor does it move funds relating to insurance contracts. Accordingly, there are no other assets, liabilities, income or charges to be reported relating to the insurance mediation business carried on by the Group, other than those already disclosed.

NOTE 47 - SUBSEQUENT EVENTS

- As provided for in the agreements between the Resolution Fund and the shareholder Lone Star, on February 24, 2022, the Resolution Fund transferred ownership of shares to Nani Holdings as a result of the capital increase by conversion of the conversion rights so that Nani Holdings' shareholding in the Bank would remain at 75%, and the Resolution Fund's shareholding was diluted to 23.44%.
- On February 24, 2022, the Russian Federation began a military operation on the territory of Ukraine, which triggered a war that currently involves three countries (Russia, Ukraine and Belarus). In response, various sanctions were approved with the aim of impacting on the Russian economy, and also that of Belarus, by a group of countries, including NATO countries, the European Union and others. There is a possibility that novobanco could be impacted by losses in the assets exposed to those countries as a result of those sanctions, as well as the destruction that is taking place in Ukraine as a result of the war. The exposure of novobanco as of December 31, 2021, by type of asset and country is presented as follows:

(in thousands of Euros)

	31.12.2021			
	Russian Federation	Belarus	Ukraine	Total
Loans and advances to customers	5 049	209	938	6196
Securities	43 140	-	-	43 140
Bonds recorded at fair value through other comprehensive income	*22 744*	-	-	22 744
Bonds recorded at amortised cost	*20 396*	-	-	20 396
Total Assets	**48 189**	**209**	**938**	**49 336**

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CASH FLOW STATEMENT FOR THE YEARS ENDED ON 2021 AND 2020

(in thousands of Euros)

		31.12.2021	31.12.2020
Cash flows from operatins activities			
Interest received		689 622	741 134
Interest paid		(160 639)	(239 631)
Fees and commissions received		287 013	279 878
Fees and commissions paid		(40 296)	(41 438)
Recoveries on loans previously written off		26 310	29 596
Contributions to the pension fund		(84 735)	(266 833)
Cash contributions to resolution funds and deposit guarantee schemes		(40 172)	(34 766)
Cash payments to employees and suppliers		(314 871)	(358 667)
		362 232	**109 273**
Changes in operating assets and liabilities:			
Deposits with / from Central Banks		972 363	915 128
Financial assets mandatorily at fair value through profit or loss		262 479	(507 149)
Financial assets designated at fair value through profit or loss		94 905	191
Financial assets at fair value through other comprehensive income		475 983	804 356
Financial assets at amortised cost		(302 090)	500 648
Securities		*(26 501)*	*(511 297)*
Loans and advances to banks		*55 162*	*59 217*
Loans and advances to customers		*(330 751)*	*952 728*
Financial liabilities at amortised cost		1 624 592	(2 837 350)
Deposits from banks		*405 818*	*(671 335)*
Due to customers		*1 218 774*	*(2 166 015)*
Derivatives - Hedge accounting		(2 438)	(3 017)
Other operating assets and liabilities		(1 161 671)	907 336
Net cash from operating activities before income tax		**2 326 355**	**(110 584)**
Corporate income taxes paid		(33 557)	(18 356)
Net cash from operating activities		**2 292 798**	**(128 940)**
Cash flows from investing activities			
Sale of investments in subsidiaries and associated companies		(4)	-
Dividends received		18 400	16 928
Acquisition of tangible fixed assets		(116 630)	(43 398)
Sale of tangible fixed assets		59 579	2 790
Acquisition of intangible assets		(25 380)	(26 508)
Net cash from investing activities		**(64 035)**	**(50 188)**
Cash flows from financing activities			
Contingent Capital Agreement		429 013	1 035 016
Emissão de obrigações e outros passivos titulados		575 000	-
Reimbursement of bonds and other debt securities		(84 916)	(589)
Net cash from financing activities		**919 097**	**1 034 427**
Net changes in cash and cash equivalents		**3 147 860**	**855 299**
Cash and cash equivalents at the beginning of the period		**2 261 646**	**1 406 347**
Net changes in cash and cash equivalents		3 147 860	855 299
Cash and cash equivalents at the end of the period		**5 409 506**	**2 261 646**
Cash and cash equivalents include:			
Cash	20	144 220	142 325
Deposits with Central Banks	20	5 264 629	2 292 797
(of which, Restricted balances)		(264 955)	(263 222)
Deposits with banks	20	265 612	89 746
Total		**5 409 506**	**2 261 646**

The accompanying explanatory notes are an integral part of the separate financial statements.

SEPARATE STATEMENT OF COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 DECEMBER 2021 AND 2020

(in thousands of Euros)

	Notes	31.12.2021	31.12.2020
Net profit / (loss) for the year		225 908	(1 374 246)
Other comprehensive income/(loss)			
Items that will not be reclassified to results		***(83 367)***	***(125 636)***
Actuarial gains / (losses) on defined benefit plans	a)	(75 649)	(122 199)
Fair value changes of equity instruments measured at fair value through other comprehensive income	a)	(7 718)	(14 320)
Fair value changes of financial liabilities at fair value through profit or loss that is attributable to changes in their credit risk	a)	-	10 883
Items that may be reclassified to results		***(136 361)***	***8 410***
Financial assets at fair value through other comprehensive income	a)	(136 361)	8 410
Total other comprehensive income/(loss) for the year		**6 180**	**(1 491 472)**

a) See Statement of Changes in Interim Equity

The accompanying explanatory notes are an integral part of the separate financial statements.

SEPARATE BALANCE SHEET AS AT 31 DECEMBER 2021 AND 2020

(in thousands of Euros)

	Notes	31.12.2021	31.12.2020
ASSETS			
Cash, cash balances at central banks and other demand deposits	20	5 674 461	2 524 868
Financial assets held for trading	21	377 709	655 327
Non-trading financial assets mandatorily at fair value through profit or loss	22	2 250 308	2 445 605
Financial assets at fair value through other comprehensive income	22	7 133 508	7 813 584
Financial assets at amortised cost	22	24 977 300	24 804 483
Debt securities		2 893 829	2 873 753
Loans and advances to Banks		186 089	245 472
Loans and advances to customers		21 897 382	21 685 258
Derivatives – Hedge accounting	23	20 150	13 606
Fair value changes of the hedged items in portfolio hedge of interest rate risk	23	28 787	60 976
Investments in subsidiaries, joint ventures and associates	24	241 066	189 924
Tangible assets		231 419	188 968
Property, Plant and Equipment	25	231 419	188 968
Intangible assets	26	67 515	48 331
Tax assets	27	776 769	771 854
Current Tax Assets		35 448	-
Deferred Tax Assets		741 321	771 854
Other assets	28	2 555 852	2 956 010
Non-current assets and disposal groups classified as held for sale	29	6 601	1 568 912
TOTAL ASSETS		**44 341 445**	**44 042 448**
LIABILITIES			
Financial liabilities held for trading	21	305 512	554 343
Financial liabilities measured at amortised cost	30	40 346 362	37 895 984
Deposits from banks		11 497 829	10 778 468
(of which, Repurchase Agreement)		*1 529 847*	*1 625 724*
Due to customers		26 997 858	25 778 507
Debt securities issued, Subordinated debt and liabilities associated to transferred assets		1 479 066	974 996
Other financial liabilities		371 609	364 013
Derivatives – Hedge accounting	23	44 460	72 543
Provisions	31	478 170	438 572
Tax liabilities	27	4 703	5 536
Current Tax liabilities		4 703	5 536
Other liabilities	32	362 836	314 611
Liabilities included in disposal groups classified as held for sale	29	-	2 007 770
TOTAL LIABILITIES		**41 542 043**	**41 289 359**
EQUITY			
Capital	33	6 054 907	5 900 000
Accumulated other comprehensive income	34	(968 987)	(749 259)
Retained earnings	34	(8 576 860)	(7 202 828)
Other reserves	34	6 064 434	6 179 422
Profit or loss attributable to Shareholders of the parent		225 908	(1 374 246)
TOTAL EQUITY		**2 799 402**	**2 753 089**
TOTAL LIABILITIES AND EQUITY		**44 341 445**	**44 042 448**

The accompanying explanatory notes are an integral part of the separate financial statements.

SEPARATE STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2021 AND 2020

(in thousands of Euros)

	Notes	Share Capital	Other Comprehensive Income	Retained earnings	Other reserves	Net profit/(loss) for the year	Total
Balance as at 31 December 2019		**5 900 000**	**(632 033)**	**(6 115 245)**	**5 580 864**	**(1 087 584)**	**3 646 002**
Other Increase / (Decrease) in Equity		**-**	**-**	**(1 087 583)**	**598 558**	**1 087 584**	**598 559**
*Appropriation to retained earnings of net profit / (loss) of the previous year**		-	-	*(1 087 584)*	-	*1 087 584*	-
Reserve of Contingent Capital Agreement	34	-	-	-	*596 315*	-	*596 315*
Other movements		-	-	*1*	*2 243*	-	*2 244*
Total comprehensive income for the year		**-**	**(117 226)**	**-**	**-**	**(1 374 246)**	**(1 491 472)**
Changes in fair value, net of tax	34	-	*12 284*	-	-	-	*12 284*
Remeasurement of defined benefit plans, net of tax	15	-	*(122 199)*	-	-	-	*(122 199)*
Credit risk changes of financial liabilites at fair value, net of tax	34	-	*10 883*	-	-	-	*10 883*
Reserves of impairment of securities at fair value through OCI	34	-	*(1 838)*	-	-	-	*(1 838)*
Reserves of sales of securities at fair value through OCI	34	-	*(16 356)*	-	-	-	*(16 356)*
Net income of the year		-	-	-	-	*(1 374 246)*	*(1 374 246)*
Balance as at 31 December 2020		**5 900 000**	**(749 259)**	**(7 202 828)**	**6 179 422**	**(1 374 246)**	**2 753 089**
Balance as at 31 December 2020		**5 900 000**	**(749 259)**	**(7 202 828)**	**6 179 422**	**(1 374 246)**	**2 753 089**
Capital increase by incorporation of special reserve for deferred taxes	33	154 907	-	-	(154 907)	-	-
Other Increase / (Decrease) in Equity		**-**	**-**	**(1 374 032)**	**39 919**	**1 374 246**	**40 133**
Appropriation to retained earnings of net profit / (loss) of the previous year		-	-	*(1 374 246)*	-	*1 374 246*	-
Reserve of Contingent Capital Agreement	34	-	-	-	*39 920*	-	*39 920*
Other movements		-	-	*214*	*(1)*	-	*213*
Total comprehensive income for the year		**-**	**(219 728)**	**-**	**-**	**225 908**	**6 180**
Changes in fair value, net of tax	34	-	*(134 562)*	-	-	-	*(134 562)*
Remeasurement of defined benefit plans, net of tax	15	-	*(75 649)*	-	-	-	*(75 649)*
Reserves of impairment of securities at fair value through OCI	34	-	*1*	-	-	-	*1*
Reserves of sales of securities at fair value through OCI	34	-	*(9 518)*	-	-	-	*(9 518)*
Net profit / (loss) for the year		-	-	-	-	*225 908*	*225 908*
Balance as at 31 December 2021		**6 054 907**	**(968 987)**	**(8 576 860)**	**6 064 434**	**225 908**	**2 799 402**

The accompanying explanatory notes are an integral part of the separate financial statements.

CASH FLOW STATEMENT FOR THE YEARS ENDED ON 2021 AND 2020

(in thousands of Euros)

		31.12.2021	31.12.2020
Cash flows from operatins activities			
Interest received		689 622	741 134
Interest paid		(160 639)	(239 631)
Fees and commissions received		287 013	279 878
Fees and commissions paid		(40 296)	(41 438)
Recoveries on loans previously written off		26 310	29 596
Contributions to the pension fund		(84 735)	(266 833)
Cash contributions to resolution funds and deposit guarantee schemes		(40 172)	(34 766)
Cash payments to employees and suppliers		(314 871)	(358 667)
		362 232	**109 273**
Changes in operating assets and liabilities:			
Deposits with / from Central Banks		972 363	915 128
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Financial assets designated at fair value through profit or loss		94 905	191
Financial assets at fair value through other comprehensive income		475 983	804 356
Financial assets at amortised cost		(302 090)	500 648
Securities		*(26 501)*	*(511 297)*
Loans and advances to banks		*55 162*	*59 217*
Loans and advances to customers		*(330 751)*	*952 728*
Financial liabilities at amortised cost		1 624 592	(2 837 350)
Deposits from banks		*405 818*	*(671 335)*
Due to customers		*1 218 774*	*(2 166 015)*
Derivatives - Hedge accounting		(2 438)	(3 017)
Other operating assets and liabilities		(1 161 671)	907 336
Net cash from operating activities before income tax		**2 326 355**	**(110 584)**
Corporate income taxes paid		(33 557)	(18 356)
Net cash from operating activities		**2 292 798**	**(128 940)**
Cash flows from investing activities			
Sale of investments in subsidiaries and associated companies		(4)	-
Dividends received		18 400	16 928
Acquisition of tangible fixed assets		(116 630)	(43 398)
Sale of tangible fixed assets		59 579	2 790
Acquisition of intangible assets		(25 380)	(26 508)
Net cash from investing activities		**(64 035)**	**(50 188)**
Cash flows from financing activities			
Contingent Capital Agreement		429 013	1 035 016
Emissão de obrigações e outros passivos titulados		575 000	-
Reimbursement of bonds and other debt securities		(84 916)	(589)
Net cash from financing activities		**919 097**	**1 034 427**
Net changes in cash and cash equivalents		**3 147 860**	**855 299**
Cash and cash equivalents at the beginning of the period		**2 261 646**	**1 406 347**
Net changes in cash and cash equivalents		3 147 860	855 299
Cash and cash equivalents at the end of the period		**5 409 506**	**2 261 646**
Cash and cash equivalents include:			
Cash	20	144 220	142 325
Deposits with Central Banks	20	5 264 629	2 292 797
(of which, Restricted balances)		(264 955)	(263 222)
Deposits with banks	20	265 612	89 746
Total		**5 409 506**	**2 261 646**

The accompanying explanatory notes are an integral part of the separate financial statements.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2021

(Amounts expressed in thousands of Euro, except when otherwise indicated)

NOTE 1 – ACTIVITY

NOVO BANCO, S.A. is the main entity of the financial Group novobanco focused on the banking activity, having been incorporated on the 3rd of August 2014 per deliberation of the Board of Directors of Bank of Portugal (the Central Bank of Portugal) dated 3rd of August 2014 (8 p.m.), under No. 5 of article 145-G of the General Law on Credit Institutions and Financial Companies ("Regime Geral das Instituições de Crédito e Sociedades Financeiras" (RGICSF)) , approved by Decree-Law No. 298/92, of 31 December, following the resolution measure applied by Bank of Portugal to Banco Espírito Santo, S.A. (BES), under the terms of paragraphs 1 and 3-c) of article 145-C of the RGICSF, from which resulted the transfer of certain assets, liabilities and off-balance sheet elements as well as assets under management of BES from BES to novobanco (novobanco or the Bank).

As a result of the resolution measure applied, Fundo de Resolução ("Resolution Fund") became the sole owner of the share capital of novobanco, in the amount of Euro 4,900 million, with the status of a transition bank, with a limited duration, due to the commitment assumed by the Portuguese State with the European Commission to sell its shares within two years from the date of its incorporation, extendable for one year.

The signing by the Resolution Fund of the contractual documents for the sale of the novobanco took place on 31 March 2017. On 18 October 2017, the sale process of novobanco was concluded, following the acquisition of a majority (75%) of its share capital by Nani Holdings, SGPS, S.A., a company that belongs to the North American group Lone Star, through two capital increases of 750 million euros and 250 million euros, which took place in October and December, respectively.

With the conclusion of the sale process, novobanco ceased to be considered a transition Bank and began to operate normally, although still being subject to certain measures restricting its activity, imposed by the European Competition Authority.

Since 18 October 2017 the financial statements of novobanco are consolidated by Nani Holdings SGPS, S.A., with registered office at Avenida D. João II, no. 46, 4A, Lisbon. LSF Nani Investments S.à.r.l., headquartered in Luxembourg, is the parent company of the Group.

NOVO BANCO, S.A. has its registered office in Lisbon, at Avenida da Liberdade, No. 195.

As at 31 December 2021, novobanco has a retail network comprising 292 branches in Portugal and abroad (31 December 2020: 340 branches), branches in Spain and Luxembourg and 4 representative offices in Switzerland (31 December 2020: 4 representative offices).

NOTE 2 – BASIS OF PRESENTATION

The separate financial statements of novobanco are presented as at 31 December 2021, expressed in thousands of euros, rounded to the nearest thousand. The accounting policies used by the Bank in the preparation are consistent with those used in the preparation of the financial statements as at 31 December 2020. The changes to the most relevant accounting policies are described in Note 5.

The separate financial statements of novobanco have been prepared under the assumption of continuity of operations from the accounting records and following the historical cost convention, except for the assets and liabilities accounted for at fair value, namely derivative financial instruments, financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, investment properties and hedged assets and liabilities, in respect of their hedged component.

The separate financial statements and the Management Report of 31 December 2021 were approved at the Executive Board of Directors' meeting held on 3 March 2022 and will be submitted to the General Assembly of Shareholders, which has the power to justifiably decide to change them. However, it is Executive Board of Directors conviction that these separate financial statements will be approved without changes.

1. References made to RGICSF refer to the version in force at the date of the resolution measure. The current version of the RGICSF has suffered changes, namely in article 145, following the publication of Law 23-A 2015, of 26 March, that came into force on the day following its publication.

NOTE 3 – STATEMENT OF COMPLIANCE

The separate financial statements of novobanco have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union in force on January 1, 2021, under Regulation (EC) nº 1606/2002 of the European Parliament and of the Council, of July 19, 2002, and Notice nº 5/2015 of Bank of Portugal.

IFRS comprise accounting standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC) and its predecessor body the Standing Interpretations Committee (SIC).

NOTE 4 – PRESENTATION OF FINANCIAL STATEMENTS

The Bank presents its statement of financial position in order of liquidity based on the Bank's intention and perceived ability to recover/settle the majority of assets/liabilities of the corresponding financial statement line item.

An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (noncurrent) is presented throughout the different balance sheet notes.

NOTE 5 – CHANGES IN ACCOUNTING POLICIES

In the preparation of its financial statements with reference to 31 December 2021, the Bank did not early adopt any new standard, interpretation or amendment issued, but not yet in force. The changes to the standards adopted by the Bank are as follows:

Norms, interpretations, amendments, and revisions that came into force in the fiscal year

The following norms, interpretations, amendments, and revisions adopted ("endorsed") by the European Union have mandatory application for the first time in the fiscal year beginning January 1, 2021:

Norm / Interpretation	Description
Amendments to IFRS 16 - Leases - COVID-19 Related Concessions for Rentals Beyond June 30, 2021	On May 28, 2020, the amendment to IFRS 16 entitled 'Covid-19 Related Concessions' was issued and introduced the following practical expedient: a lessee may elect not to assess whether a Covid-19 related concession of rent is a lease modification. Lessees that choose to apply this expedient, account for the change to rental payments resulting from a Covid-19 related concession in the same way as they account for a change that is not a lease modification under IFRS 16. Initially, the practical expedient applied to payments originally due by June 30, 2021, however, due to the extended impact of the pandemic, on March 31, 2021, it was extended to payments originally due by June 30, 2022. The change applies to annual reporting periods beginning on or after April 1, 2021. In short, the practical expedient can be applied provided the following criteria are met: • the change in lease payments results in a revised consideration for the lease that is substantially equal to, or less than, the consideration immediately prior to the change; • any reduction in lease payments only affects payments due on or before June 30, 2022; and • there are no significant changes to other terms and conditions of the lease.
Amendments to IFRS 4 - Insurance Contracts Deferral of IFRS 9	This amendment refers to the temporary accounting consequences that result from the difference between the effective date of IFRS 9 - Financial Instruments and the future IFRS 17 - Insurance Contracts. Specifically, the amendment made to IFRS 4 postpones until January 1, 2023 the expiry date of the temporary exemption from the application of IFRS 9 in order to align the effective date of the latter with that of the new IFRS 17. This temporary exemption is optional to apply and is only available to entities whose activities are predominantly insurance related.
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - Reform of benchmark interest rates - phase 2	These amendments are part of the second phase of the IASB's "IBOR reform" project and allow for exemptions related to reforming the benchmark for benchmark interest rates by an alternative interest rate (Risk Free Rate (RFR)). The amendments include the following practical expedients: • A practical expedient that requires contractual changes, or changes in cash flows that are directly required by the reform, to be treated the same as a floating interest rate change, equivalent to a movement in the market interest rate; • Allow changes required by the reform to be made to hedge designations and hedge documentation without discontinuing the hedging relationship; • Provide temporary operational relief to entities that must comply with the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

These standards and changes had no material impact on the Bank's financial statements.

NOTE 6 – MAIN ACCOUNTING POLICIES

6.1. Foreign currency transactions

6.1.1 Functional and presentational currency

The Bank's separate financial statements are prepared in Euro, which is novobanco functional currency.

6.1.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into Euro at the foreign exchange rates ruling at the balance sheet date. Foreign exchange differences arising on this translation are recognized in the income statement.

Non-monetary assets and liabilities recorded at historical cost, denominated in foreign currency, are translated using the exchange rate prevailing at the transaction date. Non-monetary assets and liabilities, denominated in foreign currency, that are stated at fair value are translated into Euro at the foreign exchange rates ruling at the dates the fair value was determined. The resulting exchange differences are accounted for in the income statement, except if related to equity instruments classified as financial assets at fair value through other comprehensive income, which are recorded in equity reserves.

Foreign exchange differences relating to cash flow hedges and the hedging of the net investment in foreign operational units, when they exist, are recognized in other comprehensive income.

6.2. Recognition of interest income and expense

Interest income and expense is recognized in the income statement under interest and similar income and interest expense and similar charges for all financial instruments measured at amortised cost and for all financial assets at fair value through other comprehensive income, using the effective interest rate method. Interest arising on financial assets and liabilities at fair value through profit or loss is also included under interest and similar income or interest expense and similar charges, as appropriate.

The effective interest rate is the rate that discounts the estimated future cash payments or receipts throughout the expected life of the financial instrument or, when appropriate, a shorter period to the net book value of the financial asset or liability. The effective interest rate is calculated at inception and is not subsequently revised, except in respect of financial assets and liabilities with a variable interest rate. In this case, the effective interest rate is periodically revised, taking into consideration the impact of the change in the interest rate of reference on the estimated future cash flows.

When calculating the effective interest rate, the Bank estimates the cash flows considering all the contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all the commissions that are an integral part of the effective interest rate, transaction costs and all other related premiums or discounts.

Interest and similar income include interest from financial assets for which were recognized impairment. The interest from financial assets classified as Stage 3 are determined based on the effective interest rate method applied to the net book value. When the asset is no longer classified as Stage 3, the interest is calculated based on the gross book value.

For derivative financial instruments, the interest component in the change in fair value of derivative financial instruments classified as fair value hedge and fair value option is recognized under interest income or interest expense. For other derivatives, the interest component inherent in the fair value change will not be separated and will be classified under the income statement of assets and liabilities held for trading (see Note 6.5).

6.3. Recognition of fee and commission income

Fees and commissions income are recognized as revenue from customer contracts to the extent that performance obligations are met:

- Fees and commissions that are earned on the execution of a significant act, such as loan syndication fees, are recognized as income when the significant act has been completed;
- Fees and commissions earned over the period during which the services are provided are recognized as income in the financial year in which the services are provided;
- Fees and commissions that are an integral part of the effective interest rate of a financial instrument are recognized as income using the effective interest rate method, as described in note 6.2.

6.4. Measurement categories for financial assets and liabilities

Dividend income is recognized when the right to receive the dividend payment is established.

6.5. Net trading income

Net income from financial assets and liabilities held for trading includes changes in fair value, interest or expenses and dividends, as well as income from derivatives held for economic hedging that do not qualify as hedging derivatives.

6.6. Net gain or loss on financial assets and liabilities designated at fair value through profit or loss

Net gain or loss on financial assets and liabilities designated at fair value through profit or loss includes the net gain or loss from financial assets and financial liabilities designated as at fair value through profit or loss and also from non-trading assets measured at fair value through profit or loss, as required by or elected under IFRS 9. The line item includes fair value changes, interest, dividends and foreign exchange differences.

6.7. Net gain or loss on derecognition of financial assets measured at amortized cost

Net loss on derecognition of financial assets measured at amortized cost includes loss (or income) recognized on sale or derecognition of financial assets measured at amortized cost calculated as the difference between the net book value (including impairment until the recoverable amount) and the proceeds received.

6.8. Financial Instruments – Initial recognition

6.8.1. Date of recognition

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognized on the trade date, i.e., the date on which the Bank becomes a party to the contractual provisions of the instrument. This includes regular way trades, i.e., purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace. Loans and advances to customers are recognized when funds are transferred to the customers' accounts. The Bank recognizes balances due to customers when funds are transferred to the Bank.

6.8.2. Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in 6.10 Financial instruments are initially measured at their fair value (as defined in Note 6.9), except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount. Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Bank accounts for the Day 1 profit or loss, as described below.

6.8.3. Day one profit

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Bank recognizes the difference between the transaction price and fair value in net trading income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognized in profit or loss when the inputs become observable, or when the instrument is derecognized.

The Bank recognizes in its income statement the gains arising from the intermediation fee (day one profit), which is generated, primarily, through currency and derivative financial product intermediation, given that the fair value of these instruments, both at inception and subsequently, is determined based solely on observable market data and reflects the Bank's access to the (wholesale market).

6.8.4. Measurement categories for financial assets and liabilities

The Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortized cost, as explained in Note 6.10.1;
- Fair Value of through Other Comprehensive Income, as explained in Notes 6.10.1, 6.10.2 and 6.10.3;
- Fair Value Through Profit or Losses, as set out in Note 6.10.4;
- Mandatorily measured at fair value through profit or loss, as set out in Note 6.10.4.

The Bank classifies and measures its derivative and trading portfolio at FVPL, as explained in Note 6.10.5. The Bank may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies, as explained in Note 6.10.6.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortized cost or at FVPL when they are held for trading and derivative.

6.9. Fair value of Financial Assets and Liabilities

The fair value of listed financial assets is determined based on the closing price (bid-price), the price of the last transaction made or the value of the last known price (bid). In the absence of quotation, the Bank estimates fair value using (i) valuation methodologies, such as the use of prices for recent transactions, similar and carried out under market conditions, discounted cash flow techniques and customized option valuation models. in order to reflect the particularities and circumstances of the instrument and (ii) valuation assumptions based on market information.

For the assets included in the level 3 of fair value hierarchy, whose quotation is provided by a third-party using parameters not observable in the market, the Bank proceeds, when applicable, to a detailed analysis of the historical and liquidity performance of these assets, which may imply an additional adjustment to its fair value, as well as a result of additional internal or external valuations.

The following is a brief description of the type of assets and liabilities included in each level of the hierarchy and the corresponding form of valuation:

Quoted market prices (level 1)

This category includes financial instruments with market prices quoted on official markets and those with dealer price quotations provided by entities that usually disclose transaction prices for these instruments traded on active markets.

The priority in terms of which price is used is given to those observed on official markets; where there is more than one official market the choice falls on the main market on which those instruments are traded.

The Bank considers market prices those disclosed by independent entities, assuming that these act for their own economic benefit and that such prices are representative of the active market, using, whenever possible, prices supplied by more than one entity (for a specific asset and/or liability). For the process of re-evaluating financial instruments, the Bank analyses the various prices in order to select the one it considers most representative for the instrument under analysis. Additionally, when they exist, prices relating to recent transactions with similar financial instruments are used as inputs, being subsequently compared to those supplied by said entities to better justify the option taken by the Bank in favour of a specific price.

This category includes, amongst others, the following financial instruments:

I. Derivatives traded on an organized market;

II. Shares quoted on a stock exchange;

III. Open investment funds quoted on a stock exchange;

IV. Closed investment funds whose subjacent assets are solely financial instruments listed on a stock exchange;

V. Bonds with observable market quotes;

VI. Financial instruments with market offers even if these are not available at the normal information sources (e.g., securities traded based on recovery rate).

Valuation models based on observable market parameters / prices (level 2)

In this category, the financial instruments are valued using internal valuation techniques, namely discounted cash flow models and option pricing models which imply the use of estimates and require judgments that vary in accordance with the complexity of the financial instruments. Notwithstanding, the Bank uses as inputs in its models, observable market data such as interest rate curves, credit spreads, volatility and market indexes. This category also includes instruments with dealer price quotations, but which markets have a lower liquidity. Additionally, the Bank also uses as observable market variables, those that result from transactions with similar instruments and that are observed with a certain regularity on the market.

This category includes, amongst others, the following financial instruments:

I. Bonds without observable market valuations valued using observable market inputs; and

II. Derivatives (OTC) over-the-counter valued using observable market inputs; and

III. Unlisted shares valued using internal models using observable market inputs.

Valuation models based on unobservable market parameters (level 3)

This level uses models relying on internal valuation techniques or quotations provided by third parties, but which imply the use of non-observable market information. The bases and assumptions for the calculation of fair value are in accordance with IFRS 13.

This category includes, amongst others, the following financial instruments:

I. Debt securities valued using non-observable market inputs;

II. Unquoted shares;

III. Closed real estate funds;

IV. Hedge funds;

V. Private equities;

VI. Restructuring funds; and

VII. Over the counter (OTC) derivatives with prices provided by third parties

6.10. Financial Assets and Liabilities

The Bank initially classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms. This classification determines how the asset is measured after its initial recognition:

- Amortised cost: if it is held within a business model with the objective to hold financial assets in order to collect contractual cash flows that are solely payments of principal and interest (SPPI - solely payments of principal and interest);
- Fair value through other comprehensive income: if it is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets and the contractual cash flows fall under the scope of SPPI. In addition, upon initial recognition, the Bank may choose to classify irrevocably equity instruments in the fair value through other comprehensive income portfolio being the changes in the fair value recognized in equity;

- Mandatorily measured at fair value through profit or loss: all cases not within the scope of SPPI;
- Measured at fair value through profit or loss: other financial instruments not included in the business models described above. If these assets are acquired for the purpose of trading in the short term, they are classified as held for trading.

6.10.1 Financial Assets at amortized cost or accounted at fair value through other comprehensive income

In accordance with IFRS 9 - Financial Instruments, for a financial asset to be classified and measured at amortised cost or at fair value through other comprehensive income, it is necessary that:

i. The contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest (SPPI - solely payments of principal and interest) on the principal amount outstanding. Principal, for the purposes of this test is defined as the fair value of the financial asset at initial recognition. The contractual terms that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in stocks or commodity prices, do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at fair value through profit or loss;

ii. The financial asset is held within a business model with the objective to hold financial assets to maturity to collect contractual cash flows (financial assets at amortised cost) or to collect the contractual cash flows until maturity and selling the financial asset (financial assets at fair value through other comprehensive income). The assessment of the business models of the financial asset is fundamental for its classification. The Bank determines the business models by financial asset groups according to how they are managed to achieve a particular business objective. The Bank's business models determine whether cash flows will be generated by obtaining only contractual cash flows, from selling the financial assets or both. At initial recognition of a financial asset, the Bank determines whether it is part of an existing business model or if it reflects a new business model. The Bank reassesses its business models in each reporting period in order to determine whether there have been changes in business models since the last reporting period.

The above requirements do not apply to lease receivables, which meet the criteria defined in IFRS 16 – Leases.

Financial assets that are subsequently measured at amortised cost or at fair value through other comprehensive income are subject to impairment.

At initial recognition, financial assets at amortised cost are recorded at acquisition cost, and subsequently measured at amortised cost based on the effective interest rate. Interest, calculated at the effective interest rate, and dividends are recognized in profit or loss.

6.10.2 Debt instruments at FVOCI

The Bank classifies debt instruments at FVOCI when both of the following conditions are met:

- The financial asset is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets;
- The contractual terms of the financial asset give rise to, on specific dates, cash flows that are solely payments of principal and interests on the principal amount outstanding.

Debt instruments classified as fair value through other comprehensive income are subsequently measured at fair value with gains and losses arising due to changes in fair value being recognized in Other Comprehensive Income, until the assets are derecognized, at which time the accumulated amount of potential gains and losses recorded without reserves is transferred to results under the heading of gains or losses on financial assets and liabilities accounted for at fair value through profit or loss. Interest income and foreign exchange gains and losses are recognized in profit or loss in the same manner as for financial assets measured at amortized cost as explained in Note 6.2.

The expected credit loss calculation for debt instruments at fair value through other comprehensive income is explained in Note 6.16. Where the Bank holds more than one investment in the same security, they are deemed to be disposed of on a first–in first–out basis.

6.10.3. Equity instruments at Fair Value through Other Comprehensive Income

Upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognized in profit or loss as other operating income when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI.

Equity instruments at FVOCI are not subject to an impairment assessment.

6.10.4. Financial assets at fair value through profit or loss

Financial assets measured at fair value through profit or loss present the following characteristics:

- contractual cash flows are not SPPI (mandatorily measured at fair value through profit or loss); and/or
- it is held within a business model which objective is neither to obtain only contractual cash flows or to obtain contractual cash flows and sale; or
- it is designated at fair value through profit or loss as a result of applying the fair value option.

These assets are measured at fair value and the respective revaluation gains or losses are recognized in the income statement, with the exception of changes resulting from the change in the Group's own risk the Debt Valuation Adjustment (DVA), which are recognized in other comprehensive income. novobanco does not records any gain arising from own credit risk.

6.10.5. Assets and liabilities held for trading

The Bank classifies financial assets or financial liabilities as held for trading when they have been purchased or issued primarily for short-term profit-making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking.

Held-for-trading assets and liabilities are recorded and measured in the statement of financial position at fair value. Changes in fair value are recognized in net trading income. Interest and dividend income or expense is recorded in net trading income according to the terms of the contract, or when the right to payment has been established.

Included in this classification are debt securities, equities, short positions and customer loans that have been acquired principally for the purpose of selling or repurchasing in the near term.

6.10.6. Derivative financial instruments and hedge accounting

Classification

The Bank classifies its derivative portfolio into (i) fair value hedge and (ii) trading derivatives, which include, in addition to the trading book, other derivatives contracted for the purpose of hedging certain assets and liabilities designated at fair value through profit or loss but not classified as hedging (fair value option).

Recognition and measurement

Derivative financial instruments are initially recognized at their fair value on the date the derivative contract is entered into (trade date). Subsequent to initial recognition, the fair value of derivative financial instruments is remeasured on a regular basis and the resulting gains or losses on remeasurement are recognized directly in the income statement, except for derivatives designated as hedging instruments. The recognition of the resulting gains or losses arising on the derivatives designated as hedging instruments depends on the nature of the risk being hedged and the hedge model used.

Derivatives traded on organised markets, namely futures and some options contracts, are recorded as trading derivatives and their fair value changes are recorded against the income statement. The margin accounts are included under other assets and other liabilities (see Notes 28 and 32) and comprise the minimum collateral mandatory for open positions.

The fair value of the remaining derivative financial instruments corresponds to their market value, if available, or is determined using valuation techniques, including discounted cash flow models and options pricing models, as appropriate.

Hedge accounting

• Classification criteria

Derivative financial instruments used for hedging purposes may be classified in the accounts as hedging instruments provided the following criteria are cumulatively met:

i. Hedging instruments and hedged items are eligible for the hedge relationship;

ii. At the inception of the hedge, the hedge relationship is identified and documented, including identification of the hedged item and hedging instrument and evaluation of the effectiveness of the hedge;

iii. There is an economic relationship between the hedged item and the hedging instrument;

iv. The effect of credit risk does not dominate the changes in value that result from this economic relationship;

v. The effectiveness of the hedge can be reliably measured, both at the inception of the hedge and on an ongoing basis.

For the cases in which the Bank uses macro hedging, accounting is performed in accordance with IAS 39 (using the policy choice permitted under IFRS 9), with the Bank carrying out prospective tests on the hedge relationship start date, when applicable, and retrospective tests in order to confirm, on each balance sheet date, the effectiveness of hedging relationships, demonstrating that changes in the fair value of the hedging instrument are covered by changes in the fair value of the hedged item in the portion attributed to the hedged risk. Any ineffectiveness found is recognized in the income statement when it occurs in gains or losses of hedge accounting.

The use of derivatives is framed in the Bank's risk management strategy and objectives.

• Fair Value Hedge

In a fair value hedging operation, the carrying value of the hedged asset or liability, determined in accordance with the respective accounting policy, is adjusted to reflect the changes in its fair value attributable to the risk being hedged. Changes in the fair value of the derivatives that are designated as hedging instruments are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the risk hedged. In cases where the hedging instrument covers an equity instrument designated at fair value through other comprehensive income, changes in fair value are also recognized in other comprehensive income.
If the hedge no longer meets the effectiveness requirement, but the objective of risk management stays the same, the Bank may adjust the hedging operation in order to meet the eligibility criteria (rebalancing).

If the hedge no longer meets the criteria for hedge accounting (if the hedging instrument expires, is sold, terminated or exercised, without having been replaced in accordance with the entity's documented risk management objective), the derivative financial instrument is transferred to the trading portfolio and hedge accounting is discontinued prospectively. The cumulative adjustment to the carrying book value of a hedged asset or liability corresponding to a fixed income instrument, is amortised via the income statement over the period to its maturity, using the effective interest rate method.

• Cash Flow Hedge

When a derivative financial instrument is designated as a hedge against the variability of highly probable future cash flows, the effective portion of the changes in the fair value of the hedging derivative is recognized in reserves, being recycled to the income statement in the periods in which the hedged item affects the income statement. The ineffective portion is recognized in the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss recognized in reserves at that time is recognized in the income statement when the hedged transaction also affects the income statement. When a hedged transaction is no longer expected to occur, the cumulative gain or loss reported in equity is recognized immediately in the income statement and the hedging instrument is reclassified to the trading portfolio.

• Embedded derivatives

If a hybrid contract includes a host contract that is a financial asset under IFRS 9, the Bank classifies the entire contract in accordance with the policy outlined in Note 6.9.

If a hybrid contract includes a host contract that is not an asset under IFRS 9, an embedded derivative shall be separated from the host contract and accounted for as a derivative under this Standard if, and only if:

a. The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;

a. A separate financial instrument with the same terms as the embedded derivative satisfies the definition of a derivative; and

a. The hybrid contract is not measured at fair value and changes in fair value are recognized in profit or loss (a derivative that is embedded in a financial liability at fair value through profit or loss is not separated).

These embedded derivatives are measured at fair value with the changes in fair value being recognized in the income statement.

6.10.7. Financial Liabilities

An instrument is classified as a financial liability when it contains a contractual obligation to transfer cash or another financial asset, regardless of its legal form. Financial liabilities are derecognized when the underlying obligation is liquidated, expires or is cancelled.

Non-derivatives financial liabilities include deposits from banks and customers, loans, debt securities, subordinated debt and short sales.

These financial liabilities are recognized (i) initially, at fair value less transaction costs and (ii) subsequently, at amortised cost, using the effective interest rate method, except for short sales and financial liabilities designated at fair value through profit or loss, which are measured at fair value.

The Bank designates, at inception, certain financial liabilities at fair value through profit or loss when:

- It eliminates or significantly reduces, a measurement or recognition inconsistency (accounting mismatch) that would otherwise occur;
- The financial liability it's part of a portfolio of financial assets or financial liabilities or both, managed and evaluated on a fair value basis, according with the Bank's risk management or investment strategy; or
- These financial liabilities contain embedded derivatives and IFRS 9 allows designate the entire hybrid contract at fair value through profit and loss.

Reclassifications between categories of liabilities are not allowed.

The structured products issued by the Bank – except for the structured products for which the embedded derivatives were separated, recorded separately, and revalued at fair value - are classified under the fair value through profit or loss category because they always meet one of the abovementioned conditions.

The fair value of listed financial liabilities is their current market bid prices. In the absence of a quoted price, the Bank establishes the fair value by using valuation techniques based on market information, including the Bank issuer's own credit risk.

Profits or losses arising from the revaluation of liabilities at fair value are recorded in the income statement. However, the change in fair value attributable to changes in credit risk is recognized in other comprehensive income. At the time of derecognition of the liability, the amount recorded in other comprehensive income attributable to changes in credit risk is not transferred to the income statement.

The Bank accounts material changes in the terms of an existing liability or part of it as an extinction of the original financial liability and recognises of a new liability. The terms are assumed to be substantially different if the present value of the cash flows under the new terms, including any fees paid net of commissions received, and discounted using the original effective interest rate is at least 10% different from the discounted present value of the remaining cash flows from the original financial liability. The difference between the carrying amount of the original liability and the value of the new liability is recognized in the income statement.

If the Bank repurchases debt securities issued, these are derecognized from the balance sheet and the difference between the carrying book value of the liability and its acquisition cost is recognized in the income statement.

6.10.8. Financial and performance guarantees

Financial guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss due to non-compliance with the contractual terms of a debt instrument, namely the payment of principal and/or interest.

Financial guarantees are initially recognized in the financial statements at fair value. Financial guarantees are subsequently measured at the higher of (i) the fair value recognized on initial recognition and (ii) the amount of any financial obligation arising as a result of guarantee contracts, measured at the balance sheet date. Any change in the amount of the liability relating to guarantees is taken to the income statement.

Financial guarantee contracts issued by the Bank normally have a stated maturity date and a periodic fee, usually paid in advance, which varies in function of the counterpart risk, the amount and the time period of the contract. Consequently, the fair value of the financial guarantee contracts issued by the Bank, at the inception date, is approximately equal to the initial fee received, considering that the conditions agreed to are market conditions. Hence, the amount recognized at the contract date is equal to the amount of the commission initially received, which is recognized in the income statement over the period to which it relates. Subsequent fees are recognized in the income statement in the period to which they relate.

Performance guarantees

Performance guarantees are contracts that result in the compensation of a party if the other does not comply with its contractual obligation. Performance guarantees are initially recognized at their fair value, which is normally evidenced by the amount of the commissions received during the contract period. When there is a breach of contract, the Bank has the right to reverse the guarantee, recognizing the amounts in Loans and advances to customers after transferring the compensation for the losses to the collateral taker.

6.11. Reclassifications of financial assets and liabilities

If the Bank changes a business model, the financial assets included in that model are reclassified and the classification and measurement requirements for the new category are applied prospectively as from that date.

6.12. Modification of financial assets and liabilities

When the contractual cash flows of a financial asset are renegotiated or otherwise modified as a result of commercial restructuring activity rather than due to credit risk and impairment considerations, the Bank performs an assessment to determine whether the modifications result in the derecognition of that financial asset. For financial assets, this assessment is based on qualitative factors. When assessing whether or not to derecognize a loan to a customer, amongst others, the Bank considers the following factors:

- Change in loan currency;
- Introduction of an equity feature;
- Change in counterparty;
- Whether the modification is such that the instrument would no longer meet the SPPI criterion.

If the modification does not result in cash flows that are substantially different, as set out below, then it does not result in derecognition. Based on the change in cash flows discounted at the original effective interest rate, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded. The Bank's accounting policy in respect of forborne loans is set out in note 6.13.

When the modification of the terms of an existing financial liability is not judged to be substantial and, consequently, does not result in derecognition, the amortized cost of the financial liability is recalculated by computing the present value of estimated future contractual cash flows that are discounted at the financial liability's original EIR. Any resulting difference is recognized immediately in the result. For financial liabilities, the Bank considers a modification to be substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial liability.

6.13. Derecognition

Financial assets are derecognized from the balance sheet when (i) the Bank's contractual rights relating to the respective cash flows have expired, (ii) the Bank has substantially transferred all the risks and benefits associated with its ownership, or (iii) despite the Bank having withholding part, but not substantially all of the risks and benefits associated with its ownership, control over the assets has been transferred. When an operation measured at fair value through other comprehensive income is derecognized, the accumulated gain or loss previously recognized in other comprehensive income is reclassified to results. In the specific case of equity instruments, the accumulated gain or loss previously recognized in other equity is not reclassified to profit or loss, being transferred between equity items.

In the specific case of loans to customers, at the time of sale, the difference between the sale value and the book value must be 100% provisioned, and at the time of the sale, the credit sold will be derecognized against the funds / assets received. and consequent use of impairment on the balance sheet.

6.14. Forborne modified loans

The Bank sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Global Risk Department. Forbearance may involve extending the payment arrangements and/or the agreement of new loan conditions. If modifications are substantial, the loan is derecognized, as explained in Note 6.12. Once the terms have been renegotiated without this resulting in the derecognition of the loan, any impairment is measured using the original effective interest rate as calculated before the modification of terms. The Bank also reassesses whether there has been a significant increase in credit risk, as set out in Note 39 and whether the assets should be classified as Stage 3.

Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset. Once an asset has been classified as forborne, it will remain forborne for a minimum 24-month probation period. In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- All of its facilities have to be considered performing;
- The probation period of two years has passed from the date the forborne contract was considered performing;
- Regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period;
- The customer does not have any contracts that are more than 30 days past due.

6.15. Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The legally enforceable right may not be contingent on future events and must be enforceable in the course of the normal activity of novobanco, as well as in the event of default, bankruptcy or insolvency of the Bank or the counterparty.

6.16. Impairment of financial assets

Impairment principles

The Bank record impairment allowance for expected credit losses ("ECLs") for the following debt instruments:

- Loans and advances to customers;
- Financial and performance guarantees;
- Import documentary credits;
- Confirmed export documentary credits;
- Undrawn loan commitments;
- Money market exposures;
- Securities portfolio.

Equity instruments are not subject to impairment under IFRS 9.

Debt instruments at amortised cost or at fair value through other comprehensive income are in the scope of the impairment calculation.

Impairment losses identified are recognized in the income statement and are subsequently reversed through the income statement if, in a subsequent period, the amount of impairment losses decreases.

Impairment is based on the credit losses expected to arise over the life of the asset (LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit losses.

The 12mECL is the portion of LTECL that represent the ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECL and 12mECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Bank groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

- **Stage 1:** When loans are first recognized, the Bank recognizes an allowance based on 12mECL. Stage 1 loans also include facilities where the credit risk has improved, and the loan has been reclassified from Stage 2.
- **Stage 2:** When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved, and the loan has been reclassified from Stage 3.
- **Stage 3:** Loans considered credit impaired. The Bank records an allowance for the LTECL.
- **POCI:** Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognized based on a credit adjusted EIR. The ECL allowance is only recognized or released to the extent that there is a subsequent change in the expected credit losses.

The calculation of ECL

The Bank calculates ECL based on probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- PD *Probability of Default* - The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognized and is still in the portfolio.
- EAD *Exposure at Default* - The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

- LGD *The Loss Given Default* - The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral or credit enhancements that are integral to the loan and not required to be recognized separately.

Scenarios

As required by IFRS 9, the impairment assessment of the Bank reflects different expectations of macroeconomic developments, i.e., it incorporates multiple scenarios. In order to incorporate the effects of future macroeconomic behaviour on loss estimates, forward looking macroeconomic estimates are included in some of the risk parameters used to calculate impairment. In fact, different possible scenarios giving rise to the same number of impairment results are considered.

In this context, the process of defining macroeconomic scenarios considers the following principles:

- Representative scenarios that capture the existing non-linearities (e.g., a base scenario, a scenario with a more favourable macroeconomic outlook and a scenario with a less favourable macroeconomic outlook);
- The base scenario should be consistent with the inputs used in other exercises in the Bank (e.g., Planning). This is ensured since the option used for the purpose of calculating impairment was precisely the same methodology that the Bank uses in internal and / or regulatory planning exercises;
- Alternative scenarios to the base scenario should not originate extreme scenarios;
- The correlation between the projected variables should be realistic with the economic reality (e.g. if GDP is increasing it is expected that unemployment is decreasing).

The exercise of build the base and alternative macroeconomic scenarios for the Portuguese economy is based on a combination of econometric forecasts, information on forecasts from other external institutions and application of subjective expert judgment.

In the first component, GDP growth is estimated through estimates for the growth of expenditure components, obtaining GDP through the formula GDP = Consumption + Investment + Exports - Imports. The econometric specifications chosen are those that, after testing different alternatives, generate the best result.

The econometric estimates thus obtained are then weighted with forecasts from external institutions, according to the principle that the combination of different projections tends to be more accurate than just a forecast (the risk of errors and bias associated with specific methods and variables is minimized).

The forecasts for prices (consume and real estate) and unemployment follow a similar methodology: own forecasts based on an estimated model, weighted with forecasts from external institutions, if available. In a base scenario, the projections for interest rates start from market expectations (provided by Bloomberg), with possible adjustments in accordance with the principles defined above, if considered appropriate (weighting by expert judgment and forecasts from external institutions). The alternative scenarios are based on the historical observation of deviations from the trend in GDP behavior (cost and contraction cycles), the reference of EBA recommendations for extreme adverse scenarios, the stylized facts of economic cycles, with respect to the components of expenditure, prices, unemployment, etc. and estimates.

Thus, when revising / updating the scenarios, the respective probabilities of execution are also reviewed. Once the scenarios are updated, the values of the risk parameters are updated for later consideration in the scope of the Impairment calculation. The final impairment calculated will thus result from the sum of the impairment value of each scenario, weighted by the respective probability of execution.

Currently, 3 scenarios are considered for the calculation of impairment on a collective basis: base case, downside case and an upside case.

The mechanics of the ECL method are summarized below:

- Stage 1: The 12mECL is calculated as the portion of LTECL that represent the ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the four scenarios, as explained above;
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECL. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR;
- Stage 3: For loans considered credit-impaired, the Bank recognizes the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.
- POCI assets are financial assets that are credit impaired on initial recognition. The Bank only recognizes the cumulative changes in lifetime ECL since initial recognition, based on a probability-weighting of the four scenarios, discounted by the credit-adjusted EIR;
- Irrevocable commitments and letters of credit. When estimating LTECL for undrawn loan commitments, the Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting of the four scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan;
- For credit cards and revolving facilities that include both a loan and an undrawn commitment, ECL is calculated and presented together with the loan. For loan commitments and letters of credit, the ECL is recognized within Provisions.

The ECL for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortized cost is recognized in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognized in OCI is recycled to the profit and loss upon derecognition of the assets.

For POCI financial assets, the Bank only recognizes the cumulative changes in LTECL since initial recognition in the loss allowance.

The ongoing assessment of whether a significant increase in credit risk has occurred for revolving facilities is similar to other lending products. This is based on shifts in the customer's internal credit grade, but greater emphasis is also given to qualitative factors such as changes in usage. The interest rate used to discount the ECL for credit cards is based on the average effective interest rate that is expected to be charged over the expected period of exposure to the facilities. This estimation takes into account that many facilities are repaid in full each month and are consequently not charged interest.

The calculation of ECL, including the estimation of the expected period of exposure and discount rate is made, on an individual basis for corporate and on a collective basis for retail products. The collective assessments are made separately for portfolios of facilities with similar credit risk characteristics.

Individual impairment analysis process

The Individual Credit Analysis comprises a staging analysis and an individual impairment quantification analysis. The staging analysis is performed for debtors previously classified as stage 1 and stage 2, with the purpose of evaluating the adequacy of the assigned stage with additional information obtained on an individual basis. The individual impairment quantification analysis aims to determine the most appropriate impairment rate for each credit customer, regardless of the amount resulting from the Collective Impairment Model. Clients that have been subject to Individual Analysis, but for which an objective impairment loss was not considered, are again included in the Collective Impairment Model. The Individual Analysis of the selected clients is carried out based on the information provided by the Commercial Structures regarding the client / Bank's framework, historical and forecast cash flows (when available) and existing collateral.

6.17. Collateral and Financial Guarantees Valuation

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. Collateral, unless repossessed, is not recorded on the Bank's statement of financial position. Collateral is generally assessed, at a minimum, at inception and re-assessed on a quarterly basis. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily. To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers or based on housing price indices.

6.18. Foreclosed properties and non-current assets held for sale

In the scope of its loan granting activity, the Bank incurs in the risk of the borrower failing to repay all the amounts due. In case of loans and advances with mortgage collateral, the Bank executes these and receives real estate properties resulting from foreclosure. Due to the provisions of the General Law on Credit Institutions and Financial Companies ("Regime Geral das Instituições de Crédito e Sociedades Financeiras" (RGICSF)), banks are prevented, unless authorised by Bank of Portugal, from acquiring real estate property that is not essential to their installation and daily operations and the pursuit of their object (No. 1 of article 112 of RGICSF), being able to acquire, however, real estate property in exchange for loans granted by same. This real estate property must be sold within 2 years, period which may, based on reasonable grounds, be extended by Bank of Portugal, on the conditions to be determined by this Authority (article 114 of RGICSF).

Although the Bank's objective is to immediately dispose of all real estate property acquired as payment in kind for loans or through foreclosure, during financial year 2016 the Bank changed the classification of this real estate properties from Non-current assets held for sale to Other assets due to the permanence of same in the portfolio exceeding 12 months. However, the accounting method has not changed, these being initially recognized at the lower of their fair value less costs to sell and the carrying amount of the subjacent loans. Subsequently, these real estate properties are measured at the lower of its initial carrying amount and the corresponding fair value less costs to sell and it is not depreciated. For real estate properties recorded in the balance sheet of novobanco, the immediate sale value is considered to be the respective fair value. The market value of property for which a promissory contract of sale and purchase has been signed corresponds to the value of that contract.

The valuation of the real estate properties received for credit recovery is performed in accordance with one of the following methodologies, applied in accordance with the specific situation of the asset:

I. **Market Method**
The Market Comparison Criteria takes as a reference transaction values of similar and comparable real estate properties to the real estate property under valuation, obtained through market prospection carried out in the zone.

II. **Income Method**
Under this method, the real estate property is valued based on the capitalization of its net income, discounted to the present using the discounted cash-flow method.

III. **Cost Method**
This method aims to reflect the current amount that would be required to substitute the asset in its present condition, separating the value of the real estate property into its fundamental components: Urban Ground Value and Urbanity Value; Construction Value; and Indirect Costs Value.

Valuations carried out are performed by independent entities specialized in these services. The valuation reports are analysed internally, namely comparing the sales values with the revalued amounts of the assets so as to assess the parameters and process adequacy with the market evolution.

Additionally, since these are assets whose fair value level in the hierarchy of IFRS 13 mostly corresponds to level 3, given the subjectivity of some assumptions used in the valuations and the fact that there are external indications with alternative values, the Bank proceeds to analysis on the assumptions used, which may imply additional adjustments to their fair value, supported by additional internal or external valuations.

For assets of greater relevance, the challenge of the appraisals that serve as a basis for the valuation of the real estate assets is carried out by a specialized area of the Bank that is independent of this valuation process, in accordance with an annual work plan previously approved by the Executive Board of Directors.

Non-current assets or disposal groups (groups of assets to be disposed of together and the related liabilities that include at least one non-current asset) are classified as held for sale when their carrying values will be recovered mainly through a sale transaction (including those acquired exclusively with a view to their subsequent disposal), the assets or disposal groups are available for immediate sale and the sale is highly probable (within the period of one year).

Immediately before the initial classification as held for sale, the measurement of the non-current assets (or of all the assets and liabilities in a disposal group) is brought up to date in accordance with the applicable IFRS. Subsequently, these assets or disposal groups are remeasured at the lower of their carrying value and fair value less costs to sell. Where the carrying value of non-current assets corresponds to fair value less costs to sell, the fair value level of the IFRS 13 hierarchy corresponds mostly to Level 3.

6.19. Write-offs

Write-off is defined as the derecognition of a financial asset from the Bank's balance sheet, which should only occur when cumulatively:

I. The total amount of the credit has been demanded, that is, the credit must be fully recognized (totally or partially) as overdue credit. Exemptions from this requirement are (i) debt restructuring/ pardon carried out within the scope of extra-judicial, PER and Insolvency agreements, in which part of the credit may remain performing and the remainder of the debt will be written off by judicial/ extra-judicial decision and (ii) situations in which that despite the contract not having expired in its entirety, the Group understands that it is facing a scenario of total or partial loss;

II. All the recovery efforts, considered appropriate, have been developed (and the relevant evidence gathered);

III. The credit recovery expectations are very low, being necessary that the amount to be written off (whether total or partial write-off of the debt) to be fully covered by impairment and under management by the central credit recovery application. It is necessary to ensure that the amount to be written off from the asset is 100% impaired (constituted at least in the month prior to the write-off); and

IV. A final agreement has been obtained as part of a restructuring process and the remaining debt can no longer be recovered.

Subsequent payments received after the write-off must be recognized as subsequent write-off recoveries at other operating income.

6.20. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with a maturity of less than three month from the date of acquisition / contracting and whose risk of change in value is immaterial, including cash, deposits with Central Banks and deposits with other credit institutions. Cash and cash equivalents exclude restricted balances with Central Banks.

6.21. Assets sold with repurchase agreements, securities loaned and short sales

Securities sold subject to repurchase agreements (repos) at a fixed price or at a price that corresponds to the sales price plus a lender's return are not derecognized from the balance sheet. The corresponding liability is included under amounts due to banks or to customers, as appropriate. The difference between the sale and repurchase price is treated as interest and deferred over the life of the agreement, using the effective interest rate method.

Securities purchased under agreements to resell (reverse repos) at a fixed price or at a price that corresponds to the purchase price plus a lender's return are not recognized in the balance sheet, the purchase price paid being recorded as loans and advances to banks or customers, as appropriate. The difference between the purchase and resale price is treated as interest and deferred over the life of the agreement, using the effective interest rate method.

Securities ceded under loan agreements are not derecognized in the balance sheet, being classified and measured in accordance with the accounting policy described in Note 6.10. Securities received under borrowing agreements are not recognized in the balance sheet.

Short sales correspond to securities sold that are not included in the Bank's assets. They are recorded as financial liabilities held for trade, at the fair value of the assets to be returned in the scope of the repurchase agreement. Gains and losses resulting from the change in their respective fair value are recognized directly in the income statement in Gains or Losses from financial assets and liabilities held for trading.

6.22. Property, plant and equipment

The Bank's tangible fixed assets are measured at cost less accumulated depreciation and impairment losses. The cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs with tangible fixed assets are only recognized when it is probable that future economic benefits associated with them will flow to the Bank. All repair and maintenance costs are charged to the income statement during the period in which they are incurred, on the accrual basis.

Land is not depreciated. The depreciation of tangible fixed assets is calculated using the straight-line method, at the following depreciation rates that reflect their estimated useful lives:

	Number of Years
Self-Service Buildings	35 to 50
Leasehold improvements	10
IT equipment	4 to 8
Furniture and fixtures	4 to 10
Interior installations	5 to 10
Security equipment	4 to 10
Machines and tools	4 to 10
Transport equipment	4
Other equipment	5

The useful lives and residual values of the tangible fixed assets are reviewed at each reporting date.

When there is an indication that an asset may be impaired, IAS 36 requires its recoverable amount to be estimated and an impairment loss recognized when the book value of the asset exceeds its recoverable amount. Impairment losses are recognized in the income statement, being reversed in subsequent periods, when the reasons that led to their initial recognition cease to exist. For this purpose, the new depreciated amount shall not exceed that which would be recorded had the impairment losses not been imputed to the asset but considering the normal depreciation the asset would have been subject to.

The recoverable amount is determined as the lower of its net selling price and its value in use, which is based on the net present value of the estimated future cash flows arising from the continued use and ultimate disposal of the asset at the end of its useful life.

On the date of the derecognition of a tangible fixed asset, the gain or loss determined as the difference between the net selling price and the net carrying book value is recognized under the caption Other operating income or Other operating expenses.

6.23. Leases

Lease Definition

The Bank assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

As lessee

As a lessee, the Bank leases various assets, including real estate, vehicles and IT equipment. The Bank recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

As previously mentioned, the Bank has opted not to recognize assets under right of use and liabilities for short-term leases, with a lease term of 12 months or less, and low value asset leases (e.g. IT equipment) with a new value of less than Euro 5 thousand. The Bank recognizes the lease payments associated with these leases as expenses on a straight-line basis over the lease term in income statement as "Other administrative expenses – rents and rentals".

The Bank presents assets under right of use that do not fit the definition of investment property as "tangible fixed assets", in the same line as the underlying assets of the same nature that they own. Right-of-use assets that fall under the definition of investment property are presented as investment property. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred and less any lease incentives received.

The Bank presents the lease liabilities under "Other liabilities" in the statement of financial position. The lease liability corresponds to the present value of the future cash flows to be paid during the lease contract. The lease rents include fixed amounts, variable amounts that depend on an interest rate, amounts to be payable relating to guarantees on the residual value of the asset. Any options are also included if they are reasonably expected to be exercised.

Variable amounts that do not depend on interest rate are recognized as cost in the period to which they relate. During the lease period, the lease liability increases by the interest accrual and decreases by the lease rents payment. The value of the lease liability changes if the terms of the lease (such as the term or the value of the index) change or if the valuation of the exercise of the option to acquire the asset changes.

As Lessor

Financial leases

Transactions in which the risks and benefits inherent in the ownership of an asset are substantially transferred to the lessee are classified as finance leases. Financial leasing contracts are recorded in the balance sheet as credits granted for an amount equivalent to the net investment made in the leased assets, together with any estimated non-guaranteed residual value. Interest included in rents charged to customers is recorded as income while capital amortizations, also included in rents, are deducted from the amount of credit granted to customers. The recognition of interest reflects a constant periodic rate of return on the lessor's remaining net investment.

Operating leases

All lease transactions that do not fall under the definition of finance lease are classified as operating leases. Revenues relating to these contracts are recognized on a straight-line basis over the lease term and recorded in "Other operating income".

6.24. Intangible assets

The costs incurred with the acquisition, production and development of software are capitalised, as are additional costs incurred by the Bank to implement said software. These costs are amortised on a straight-line basis over their expected useful lives, which usually range between 3 and 6 years.

Costs that are directly associated with the development of specific software applications, that will probably generate economic benefits beyond one financial year, are recognized and recorded as intangible assets.

All remaining costs associated with information technology services are recognized as an expense as incurred.

6.25. Impairment of non-financial assets

The Bank assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asse or cash generating unit fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or cash generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Bank bases its impairment calculation on most recent budgets and forecast calculations, which are prepared separately for each of the Bank's cash generating units to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year (perpetuity).

Impairment losses of continuing operations are recognized in the statement of profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognized in other comprehensive income up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Bank estimates the assets or cash generating unit recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Intangible assets with indefinite useful lives are tested for impairment annually at the cash generating unit level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

The Bank assesses where climate risks may have a significant impact, such as the introduction of emissions reduction legislation that may increase production costs. These risks in relation to climate-related issues are included as key assumptions when they materially affect the impairment measurement. These assumptions have been included in the cash flow forecasts in the value in use assessment.

6.26. Employee benefits

Pensions

Pursuant to the signature of the Collective Labour Agreement ("Acordo Coletivo de Trabalho" (ACT)) for the banking sector and its subsequent amendments resulting from the 3 tripartite agreements described in Note 16, pension funds and other mechanisms were set up to cover liabilities assumed with pensions on retirement, disability, survival and health-care benefits.

The liabilities' coverage is assured, for most of the Group companies, by pension funds managed by GNB - Sociedade Gestora de Fundos de Pensões, SA, subsidiary of the Group.

The pension plans of the Bank are defined benefit plans, as they establish the criteria to determine the pension benefit to be received by employees during retirement, usually dependent on one or more factors such as age, years of service and salary level.

The retirement pension liabilities are calculated semi-annually, in 31 December and 30 June of each year, for each plan individually, using the Projected Unit Credit Method, being annually reviewed by qualified independent actuaries. The discount rate used in this calculation is determined with reference to market rates associated with high-quality corporate bonds, denominated in the currency in which the benefits will be paid out and with a maturity similar to the expiry date of the plan's liabilities.

The Bank determines the net interest income / expense for the period incurred with the pension plan by multiplying the plan's net assets / liabilities (liabilities net of the fair value of the fund's assets) by the discount rate used to measure the retirement pension liabilities referred to above. On that basis, the net interest income / expense was determined based on the interest cost on the retirement pension liabilities net of the expected return on the funds' assets, both calculated using the discount rate applied in the determination of the retirement pension liabilities.

Re-measurement gains and losses, namely (i) actuarial gains and losses arising due to differences between actuarial assumptions used and real values verified (experience adjustments) and changes in actuarial assumptions and (ii) gains and losses arising due to the difference between the expected return on the fund's assets and the actual investment returns, are recognized in equity under the caption other comprehensive income.

The Bank recognizes as a cost in the income statement a net total amount that includes (i) current service costs, (ii) net interest income / expense with the pension fund, (iii) the effect of early retirement, (iv) past service costs, and (v) the effect of settlements or curtailments occurring during the period. The net interest income / expense with the pension plan is recognized as interest income or interest expense, depending on its nature. Early retirement costs correspond to increases in liabilities due to employees retiring before turning 65 (normal retirement age foreseen in the ACTV) and which forms the basis of the actuarial calculation of pension fund liabilities. Whenever the possibility of the early retirement provided for in the pension fund regulation is invoked, the responsibilities of same must be incremented by the value of the actuarial calculation of the liabilities corresponding to the period between the early retirement and the employee turning 65.

The Bank makes payments to the funds to assure their solvency, the minimum levels set by Bank of Portugal being: (i) the liability with pensioners must be totally funded at the end of each period, and (ii) the liability relating to past service costs for active employees must be funded at a minimum level of 95%.

The Bank assesses the recoverability of any excess in a fund regarding he retirement pension liabilities, based on the expectation of reductions in future contributions.

Health-care benefits

The Bank provides to its banking employees health-care benefits through a specific Social-Medical Assistance Service. This Social-Medical Assistance Service (SAMS) is an autonomous entity which is managed by the respective Union.

SAMS provides its beneficiaries with services and/or contributions on medical assistance expenses, auxiliary diagnostic means, medication, hospital admissions and surgical interventions, in accordance with its financial resources and internal regulations.

Arising from the signature of the new Collective Labour Agreement (ACT) on 5 July 2016, published in Labour Bulletin (Boletim do Trabalho) No. 29, of 8 August 2016, the Bank's contributions to SAMS, correspond to a monthly fixed amount (as per Annex VI of the new ACT) for each employee, 14 times a year, recorded on a monthly basis in personnel costs, while the component to be paid by the employee is discounted monthly in the processing of salary, against the caption Amounts payable (SAMS).

The calculation and recognition of the Bank's liability with post-retirement health-care benefits is similar to the calculation and recognition of the pension liability described above. These benefits are covered by the Pension Fund, which presently covers all liabilities with pensions and health-care benefits (defined benefit plan).

Career bonus

The ACT provides for the payment by the Bank of a career bonus, due at the time immediately prior to the employee's retirement if he retires at the Bank's service, corresponding to 1.5 of his salary at the time of payment.

These long-term service bonuses were accounted for by the Bank in accordance with IAS 19, as other long-term employee benefits. The Bank's liability with these long-term service bonuses were periodically estimated by the Bank using the Projected Unit Credit Method. The actuarial assumptions used were based on expectations as to future salary increases and mortality tables. The discount rate used in this calculation was determined using the methodology described for retirement pensions. In each period, the increase in the liability for long-term service bonuses, including actuarial gains and losses and past service costs, was charged to the income statement, in Personnel Expenses.

Employees' variable remuneration and other obligations

The Bank recognises under costs the short-term benefits paid to employees who were at its services in the respective accounting period.

- Profit-sharing and bonus plans
  The Bank recognizes the cost expected with profit-sharing pay-outs and bonuses when it has a present, legal or constructive, obligation to make such payments as a result of past events, and can make a reliable estimate of the obligation.
- Obligations with holidays, holiday subsidy and Christmas subsidy
  In accordance with the legislation in force in Portugal, employees are annually entitled to one month of holidays and one month of holiday subsidy, this being a right acquired in the year prior to their payment. In addition, employees are annually entitled to one month of Christmas subsidy, which right is acquired throughout the year and settled during the month of December of each calendar year. Hence, these liabilities are recorded in the period in which the employees acquire the right to same, regardless of the date of their respective payment.

6.27. Provisions and Contingent Liabilities

Provisions are recognized when: (i) the Bank has a current legal or constructive obligation, (ii) it is probable that its settlement will be required in the future and (iii) a reliable estimate of the obligation can be made.

Provisions related to legal cases opposing the Bank to third parties, are constituted according to internal risk assessments made by Management, with the support and advice of its legal advisors, both internal and external.

When the effect the discounting is material, the provision corresponds to the net present value of the expected future payments, discounted at an appropriate rate considering the risk associated with the obligation. In these cases, the increase in the provision due to the passage of time is recognized in financial expenses.

Restructuring provisions are recognized when the Bank has approved a formal, detailed restructuring plan and such restructuring has either commenced or has been publicly announced.

A provision for onerous contracts is recognized when the benefits expected to be derived by the Bank from a contract are lower than the unavoidable costs of meeting its obligation under the contract.

This provision is measured at the present value of the lower of the estimated cost of terminating the contract and the estimated net costs of continuing the contract.

If a future outflow of funds is not probable, this situation reflects a contingent liability. Contingent liabilities are always disclosed, except when the likelihood of their occurrence is remote.

6.28. Income Taxes

novobanco and its subsidiaries are subject to the tax regime consigned in the *Código do Imposto sobre o Rendimento das Pessoas Coletivas* (IRC Code).

Corporate income tax comprises current tax and deferred tax.

Corporate income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized under equity. Corporate income tax recognized directly in equity relating to fair value remeasurement of financial assets at fair value through other comprehensive income and cash flow hedges is subsequently recognized in the income statement when the gains or losses giving rise to said income tax are also recognized in the income statement.

Current tax

Current tax is the tax expected to be paid on the taxable profit for the year, calculated using tax rules and tax rates enacted or substantively enacted in each jurisdiction and any adjustments to prior period taxes. The tax is recognized in each financial reporting period based on management estimates as regards the average effective tax rate foreseen for the entire fiscal year.

Current tax is calculated based on taxable income for the period, which differs from the accounting result due to adjustments resulting from expenses or income not relevant for tax purposes or which will only be considered in subsequent years.

Deferred tax

Deferred tax is calculated on timing differences arising between the carrying book values of assets and liabilities for financial reporting purposes and their respective tax base and is calculated using the tax rates enacted or substantively enacted at the balance sheet date in each jurisdiction and that are expected to apply when the timing differences are reversed.

Deferred tax liabilities are recognized for all taxable timing differences except for i) differences arising on the initial recognition of assets and liabilities that neither affect the accounting nor taxable profit; ii) that do not result from a business combination, and iii) differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the deductible timing differences can be offset for tax purposes (including tax losses carried forward). Deferred tax liabilities are always accounted for, regardless of the performance of Bank.

The taxable profit or tax loss determined by the Bank can be adjusted by the Portuguese Tax Authorities within a period of four years, except in the case of any deduction or use of tax credit, in which the expiry period is the exercise of that right (5 or 12 years in the case of tax losses, depending on the year). The Executive Board of Directors considers that any corrections, resulting mainly from differences in the interpretation of tax legislation, will not have a materially relevant effect on the financial statements.

The Bank, as established in IAS 12, paragraph 74, offsets deferred tax assets and liabilities whenever (i) it has the legally enforceable right to offset current tax assets and current tax liabilities; and (ii) they relate to corporate income taxes levied by the same Taxation Authority, on the same tax entity or different taxable entities that intent to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which the deferred tax liabilities or assets are expected to be settled or recovered.

The Bank complies with the guidelines of IFRIC 23 - Uncertainty on the Treatment of Income Tax with regard to the determination of taxable profit, tax bases, tax losses to be reported, tax credits to be used and tax rates in scenarios of uncertainty regarding the treatment of income tax, with no material impact on its financial statements resulting from its application.

6.29. Treasury shares

Own equity instruments of the Bank which are acquired by it are deducted from equity. Consideration paid or received on the purchase, sale, issue or cancellation of the Bank's own equity instruments is recognized directly in equity. No gain or loss is recognized on the result of the purchase, sale, issue or cancellation of own equity instruments. At 31 December 2021, the Bank does not hold own equity instruments.

6.30. Disintermediation

The Bank provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity, unless recognition criteria are met, are not reported in the financial statements, as they are not assets of the Bank.

6.31. Dividends

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and are no longer at the discretion of the Bank.. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

6.32. Reserves

The reserves recorded in equity on the Bank's statement of financial position include:

- Other Comprehensive Income:

- Fair value reserves which comprise: (i) The cumulative net change in the fair value of debt instruments classified at fair value through other comprehensive income, minus the allowance for expected credit loss, when applicable; (ii) The cumulative net change in fair value of equity instruments at fair value through other comprehensive income;
- Impairment reserves of debt instruments classified at fair value through other comprehensive income;
- Reserves associated with sales of equity instruments classified as fair value through other comprehensive income, which include the proceeds from sales of these securities;
- Actuarial deviation reserves that correspond to actuarial gains and losses, resulting from differences between the actuarial assumptions used and the values actually verified (experience gains and losses) and from changes in actuarial assumptions and the gains and losses arising from the difference between the income expected from the fund's assets and the values obtained;
- Own credit revaluation reserve, which comprises the cumulative changes in the fair value of the financial liabilities designated at fair value through profit or loss attributable to changes in the Bank's own credit risk;
- Cash flow hedge reserve, which comprises the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge;
- Foreign currency translation reserve, which is used to record exchange differences arising from the translation of the net investment in foreign operations, net of the effects of hedging;
- Other capital reserve, which includes the portion of compound financial liabilities that qualify for treatment as equity.

• Retained earnings, which corresponds to earnings of the Bank carried over from previous years;

• Other reserves (originary reserve, special reserve and other reserves).

6.33. Earnings per share

Basic earnings per share are calculated by dividing the net income attributable to the shareholders of the parent company by the weighted average number of ordinary shares outstanding during the period.

For the calculation of diluted earnings per share, the weighted average number of ordinary shares outstanding is adjusted to reflect the impact of all potential dilutive ordinary shares, such as those resulting from convertible debt and share options granted to employees. The dilution effect translates into a decrease in earnings per share, based on the assumption that the convertible instruments will be converted or the options granted will be exercised.

6.34. The accounting standards and interpretations

The accounting standards and interpretations recently issued but not yet effective and that the Bank has not yet applied in the preparation of its financial statements may be analyzed as follows:

Standards, interpretations, amendments and revisions that become effective in future years:
The following standards, interpretations, amendments and revisions, with mandatory application in future financial years, have, up to the date of approval of these financial statements, been adopted ("endorsed") by the European Union:

Norm / Interpretation	Applicable in the European Union for fiscal years beginning on or after	Description
Amendments to IFRS 3 - References to the Framework for Financial Reporting	1-jan-2022	This amendment updates the references to the Framework in the text of IFRS 3, with no changes being made to the accounting requirements for business combinations. It also clarifies the accounting treatment to be adopted in respect of liabilities and contingent liabilities under IAS 37 and IFRIC 21, incurred separately versus those included in a business combination. The amendment is of prospective application.
Amendments to IAS 16 - Income Earned Before Start out	1-jan-2022	Clarifies the accounting treatment given to the consideration obtained with the sale of products that result from the production in test phase of tangible fixed assets, prohibiting their deduction from the acquisition cost of the assets. The entity recognizes the income obtained from the sale of such products and the costs of their production in results.
Amendments to IAS 37 - Onerous Contracts - costs of fulfilling a contract	1-jan-2022	This amendment specifies that in assessing whether or not a contract is onerous, only expenses directly related to the performance of the contract can be considered, such as incremental costs related to direct labor and materials and the allocation of other directly related expenses such as the allocation of depreciation expenses for tangible assets used to perform the contract. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly charged to the counterparty in accordance with the contract. This amendment should be applied to contracts that, at the beginning of the first annual reporting period to which the amendment is applied, still include unfulfilled contractual obligations, without restating the comparative.
Amendments to IFRS 1 - Subsidiary as a first-time adopter of IFRS (included in the annual improvements for the 2018-2020 cycle)	1-jan-2022	This improvement clarifies that when the subsidiary chooses to measure its assets and liabilities at the amounts included in the parent company's consolidated financial statements (assuming no adjustment to the consolidation process has occurred), the measurement of the cumulative translation differences of all foreign operations can be made at the amounts that would be recorded in the consolidated financial statements, based on the parent company's date of transition to IFRS.
Amendments to IFRS 9 - Derecognition of financial liabilities - Fees to be included in the '10 per cent' change test (included in the annual improvements for the 2018 2020 cycle)	1-jan-2022	This improvement clarifies which fees an entity should include when assessing whether the terms of a financial liability are substantially different from the terms of the original financial liability. This improvement clarifies that, when performing derecognition tests on renegotiated liabilities, only fees paid or received between the debtor and the creditor should be included, including fees paid or received by the debtor or the creditor on behalf of the other.
Amendments to IAS 41 - Taxation and fair value measurement (included in the annual improvements for the 2018-2020 cycle)	1-jan-2022	This improvement eliminates the requirement to exclude tax cash flows in the fair value measurement of biological assets, ensuring consistency with the principles of IFRS 13 - Fair Value.
IFRS 17 - Insurance Contracts	1-jan-2023	IFRS 17 applies to all insurance contracts (i.e. life, non-life, direct insurance and reinsurance), regardless of the type of entity that issues them, as well as some guarantees and some financial instruments with discretionary participation features. In general terms, IFRS 17 provides an accounting model for insurance contracts that is more useful and more consistent for issuers. In contrast to the requirements of IFRS 4, which are based on previously adopted local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.

The Bank did not early adopt any of these standards in its financial statements for the year ended December 31, 2021. No significant impacts on the financial statements are expected as a result of their adoption.

Standards, interpretations, amendments and revisions not yet adopted by the European Union

The following standards, interpretations, amendments and revisions, with mandatory application in future financial years, have not been, until the date of approval of these financial statements, adopted ("endorsed") by the European Union:

Norm / Interpretation	Description
Amendments to IAS 1 – Presentation of financial statements - Classification of current and non-current liabilities	This amendment aims to clarify the classification of liabilities as current or non-current balances depending on the rights that an entity has to defer its payment, at the end of each reporting period. The classification of liabilities is not affected by the entity's expectations (the assessment should determine whether a right exists, but should not consider whether the entity will or will not exercise that right), or by events occurring after the reporting date, such as the breach of a "covenant". However, if the right to defer settlement for at least twelve months is subject to certain conditions being met after the reporting date, those criteria do not affect the right to defer settlement for the purpose of classifying a liability as current or noncurrent. This amendment also includes a new definition of "settlement" of a liability and is retrospective.
Amendments to IAS 8 – Definition of accounting estimates	The amendment clarifies the distinction between change in accounting estimate, change in accounting policy and correction of errors. In addition, it clarifies how an entity uses measurement techniques and inputs to develop accounting estimates.
Amendments to IAS 1 – Disclosure of accounting policies	These amendments are intended to assist the entity in disclosing 'material' accounting policies, previously referred to as 'significant' policies. However, due to the absence of this concept in IFRS, it was decided to replace it by the concept "materiality", a concept already known to users of financial statements. In assessing the materiality of accounting policies, the entity has to consider not only the size of the transactions but also other events or conditions and the nature of these.
Amendments to IAS 12 – Deferred tax related to assets and liabilities arising from a single transaction	The amendments clarify that payments that settle a liability are tax deductible, however it is a matter of professional judgment whether such deductions are attributable to the liability that is recognized in the financial statements or the related asset. This is important in determining whether there are temporary differences in the initial recognition of the asset or liability. According to these amendments, the initial recognition exception is not applicable to transactions that have given rise to equal taxable and deductible temporary differences. It only applies if the recognition of a leasing asset and a leasing liability gives rise to taxable and deductible temporary differences that are not equal.
Amendments to IFRS 17 – Insurance Contracts - Initial application of IFRS 17 and IFRS 9 - Comparative Information	This amendment to IFRS 17 relates to the presentation of comparative information for financial assets in the initial application of IFRS 17. The amendment adds a transition option that allows an entity to apply an 'overlay' to the classification of a financial asset in the comparative period(s) presented in initially applying IFRS 17. The overlay allows all financial assets, including those held in relation to non-contractual activities within the scope of IFRS 17 to be classified, instrument by instrument, in the comparative period(s) in a manner aligned with how the entity expects those assets to be classified on initial application of IFRS 9.

These standards have not yet been endorsed by the European Union and, as such, have not been applied by the Bank for the year ended December 31, 2021. No significant impacts on the financial statements are expected as a result of their adoption.

NOTE 7 – MAIN ACCOUNTING ESTIMATES AND JUDGEMENTS USED IN PREPARING THE FINANCIAL STATEMENTS

Considering that the current accounting framework requires applying judgements and calculating estimates involving some degree of subjectivity, the use of different parameters or judgements based on different evidence may result in different estimates. The main accounting estimates and judgments used in applying the accounting principles by the Bank are discussed in this Note to improve the understanding of how their application affects the reported results of the Bank and its disclosure.

The COVID-19 pandemic, despite the government and regulatory response measures adopted, resulted in an additional high level of uncertainty about the Portuguese and European economy and in particular banking activity, with an impact on the judgments and estimates used in the financial statements. However, the internal control policies and standards adopted by the Bank allow us to consider that these judgments and estimates were made independently and appropriately as at 31 December 2021.

The relevant judgments made by Management in the application of the Bank's accounting policies and the main sources of uncertainty in the estimates were the same as those described in the last report of the Financial Statements.

7.1. Impairment of financial assets at amortized cost and at fair value through other comprehensive income

The critical judgements with greater impact on the recognized impairment values for the financial assets at amortized cost and at fair value through other comprehensive income are the following:

- Assessment of the business model: the measurement and classification of financial assets depends on the results of SPPI test and on the business model setting. The Bank determines its business model based on how it manages the financial assets and its business objectives. The Bank monitors if the business model classification is appropriate based on the analysis on the anticipated derecognition of the assets at amortized cost or at fair value through other comprehensive income, assessing if it is necessary to prospectively apply any changes;
- Significant increase on the credit risk: as mentioned on the accounting policy 6.16, the determination of the transfer of an asset from stage 1 to stage 2 with the purpose of determining the respective impairment is made based on the judgement that, in accordance to the Bank management, constitutes a significant increase on credit risk;
- Classification of default: the internal definition of exposure in default is broadly in line with the regulatory definition in Article 178 of CRR/CRD IV. This regulation defines qualitative criteria for assessing the default classification – unlikely to pay -, which are replicated in the internal definition implemented by novobanco and which result in performing judgements when assessing the high probability that the borrower does not fulfil its obligations within the conditions agreed with novobanco. This concept is covered in more detail below;
- Definition of groups of financial assets with similar credit risk characteristics: when the expected credit losses are measured through collective model, the financial instruments are aggregated based on the same risk characteristics. The Bank monitors the credit risk characteristics in order to assure the correct reclassification of the assets, in cases of changes on the credit risk characteristics;
- Models and assumptions: the Bank uses several models and assumptions on the measurement of the expected credit losses. The judgement is applied on the identification of the more appropriate model for each type of asset as well as in the determination of the assumptions used in these models, including the assumptions related with the main credit risk drivers. In addition, in compliance with the IFRS 9 regulation that clarifies the need for the impairment result to consider multiple scenarios, a methodology for incorporating different scenarios into the risk parameters was implemented. Thus, the calculation of collective impairment considers several scenarios with a specific weighting, based on the internal methodology defined about scenarios - definition of multiple perspectives of macroeconomic evolution, with probability of relevant occurrence.

7.2. Fair value of derivative financial instruments and other financial assets and liabilities at fair value

Fair value is based on listed market prices when available; otherwise fair value is determined based on similar recent arm's length transaction prices or using valuation methodologies, based on the net present value of estimated future cash flows taking into consideration market conditions, the time value, the yield curve and volatility factors, in accordance with IFRS 13 - Fair Value Measurement. The Bank uses several models and assumption in measuring the fair value of financial assets. Judgement is applied on the identification of the more appropriate model for each type of asset as well as in the determination of the assumptions used in these models, including the assumptions related with the main credit risk drivers.

Consequently, the use of a different methodology or different assumptions or judgements in applying a particular model could have produced different financial results, summarized in Note 38.

7.3. Corporate income taxes

The Bank is subject to corporate income tax in numerous jurisdictions. Certain interpretations and estimates are required in determining the overall corporate income tax amount. Different interpretations and estimates could result in a different level of income tax, current and deferred, being recognized in the period and evidenced in Note 27.

This aspect assumes additional relevance for effects of the analysis of the recoverability of deferred taxes, while the Bank considers forecasts of futures taxable profits based on a group of assumptions, including the estimate of income before taxes, adjustments to the taxable income and its interpretation of fiscal legislation. This way, the recoverability of deferred taxes depends on the concretization of the strategy of the Executive Board of Directors, namely in the capacity to generate the estimated taxable results and its interpretation of fiscal legislation.

The Tax Authorities are entitled to review the determination of the taxable income of the Bank during a period of four years or twelve years, when there are tax loss carry forwards. Hence, it is possible that some additional taxes may be assessed, mainly as a result of differences in interpretation of tax law. However, it is the conviction of the Executive Board of Directors of the Bank, that there will be no significant corrections to the corporate income taxes recorded in the financial statements.

7.4. Pensions and other employee benefits

The determination of the retirement pension liabilities presented in Note 15 requires the use of assumptions and estimates, including the use of actuarial tables, assumptions regarding the growth of pensions, salaries and discounts rates (which are determined based on the market rates associated with high quality corporate bond, denominated in the same currency in which the benefits will be paid and with a maturity similar to the expiry date of the plan's obligations). These assumptions are based on the expectations of the novobanco for the period during which the liabilities will be settled as well as other factors that may impact the costs and liabilities of the pension plan.

Changes in these assumptions could materially affect the amounts determined.

7.5. Provisions and Contingent liabilities

The recognition of provisions involves a significant degree of complex judgment, namely identifying whether there is a present obligation and estimating the probability and timing, as well as quantifying the outflows that may arise from past events. When events are at an early stage, judgments and estimates can be difficult to quantify due to the high degree of uncertainty involved. The Executive

Board of Directors monitors these matters as they develop to regularly reassess whether the provisions should be recognized. However, it is often not feasible to make estimates, even when events are already at a more advanced stage, due to existing uncertainties.

The complexity of such issues often requires expert professional advice in determining estimates, particularly in terms of legal and regulatory issues. The amount of recognized provisions may also be sensitive to the assumptions used, which may result in a variety of potential results that require judgment in order to determine a level of provision that is considered appropriate in view of the event in question.

7.6. Investment properties, Foreclosed assets and Non-current assets held for sale

Foreclosed assets and Non-current assets held for sale are measured at the lower of the net book value and the fair value less costs to sell.

The fair value of these assets is determined based on valuations carried out by independent entities specializing in this type of service, using the market, income or cost methods defined in Note 6.18. The valuation reports are analyzed internally, namely comparing the sales values with the revalued values of the properties to maintain the valuation parameters and processes aligned with the market evolution.

The use of alternative methodologies and different assumptions could result in a different level of fair value with an impact on the respective balance sheet amount recognized.

7.7 Significant judgment in determining contract lease term

The Bank has applied judgment to determine the lease term of certain agreements, in which it acts as lessee, and which include renewal and termination options. The Bank determines the lease term as the non-cancellable lease term, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if reasonably certain not to be exercised. This assessment will have an impact on the lease term, which will significantly affect the amount of the lease liabilities and recognized right-of-use assets.

The Bank has the option, namely in real estate lease agreements, to lease assets for additional periods from 1 month to 20 years. The Bank applies judgment in assessing whether it is reasonably right to exercise the renewal option. That is, it considers all the relevant factors that create an economic incentive for renewal.

NOTE 8 – NET INTEREST INCOME

The breakdown of this caption as at 31 December 2021 and 2020 is as follows:

(in thousands of Euros)

	31.12.2021					31.12.2020				
	Calculated by the effective interest method			Other		Calculated by the effective interest method			Other	
	From assets / liabilities at amortised cost	From assets / liabilities at fair value through other comprehensive income	Income/expenses from negative interest rates	From assets / liabilities at fair value through profit or loss	Total	From assets / liabilities at amortised cost	From assets / liabilities at fair value through other comprehensive income	Income/expenses from negative interest rates	From assets / liabilities at fair value through profit or loss	Total
Interest Income										
Interest from loans and advances	484 946	12 922	-	-	497 868	508 045	13 344	-	-	521 389
Interest from deposits with and loans and advances to banks	14 033	-	75 062	-	89 095	19 835	-	39 401	-	59 236
Interest from securities	65 266	70 982	-	18 631	154 879	59 987	81 067	-	27 709	168 763
Interest from derivatives	-	-	1 579	4 730	6 309	-	-	1 669	8 545	10 214
Other interest and similar income	441	-	-	-	441	509	-	-	-	509
	564 686	**83 904**	**76 641**	**23 361**	**748 592**	**588 376**	**94 411**	**41 070**	**36 254**	**760 111**
Interest Expenses										
Interest on debt securities issued	36 513	-	-	-	36 513	34 206	-	-	-	34 206
Interest on amounts due to customers	50 231	-	-	-	50 231	69 990	-	-	-	69 990
Interest on deposits from Central Banks and other banks	8 937	-	11 380	-	20 317	26 620	-	2 750	-	29 370
Interest on subordinated liabilities	34 168	-	-	-	34 168	34 165	-	-	-	34 165
Interest on derivatives	-	-	6 980	11 308	18 288	-	-	5 771	10 816	16 587
Other interest and similar expenses	6 940	-	1 051	-	7 991	7 463	-	331	-	7 794
	136 789	**-**	**19 411**	**11 308**	**167 508**	**172 444**	**-**	**8 852**	**10 816**	**192 112**
	427 897	**83 904**	**57 230**	**12 053**	**581 084**	**415 932**	**94 411**	**32 218**	**25 438**	**567 999**

On 31 December 2021, interest from loans and advances to customers includes Euro 31 037 thousand related to financial lease operations (31 December 2020: Euro 35 385 thousand).

In relation to repurchase agreement operations, interests from deposits from Other banks includes, as of December 31, 2021, the amount of Euro 2,300 thousand (31 December 2020: Euro -16 thousand in customer deposits and Euro 822 thousand in interest from deposits of other banks).

Interest income and expense items related to derivative interest include interest from hedging derivatives and from derivatives used to manage the economic risk of certain financial assets and liabilities designated at fair value through profit or loss, as per the accounting policies described in Notes 6.10.6 e 6.10.7.

NOTE 9 – DIVIDEND REVENUE

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Financial assets mandatorily at fair value through profit or loss		
Shares	**2 146**	**1 765**
Euronext NV	1 801	1 391
Visa Inc CL C	226	261
Others	119	113
Participation Units	**7 604**	**5 324**
Explorer III B	7 604	634
Fundo Solução Arrendamento	-	3 141
Others	-	1 549
Financial assets at fair value through other comprehensive income		
Shares	**1 062**	**7 750**
FLITPTREL X	-	6 000
SIBS SGPS	785	887
ESA Energia	275	657
Others	2	206
Financial assets in investments in associates and subsidiaries	**7 588**	**2 089**
Unicre	6 322	-
Locarent	518	958
Edenred	660	583
ESEGUR	88	548
	18 400	**16 928**

NOTE 10 – FEES AND COMMISSIONS INCOME AND EXPENSES

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Fees and commissions income		
From banking services	205 914	198 376
From guarantees provided	32 654	34 762
From transaction of securities	4 657	3 718
From commitments to third parties	7 997	8 062
From transactions carried out on behalf of third parties - cross-selling	33 434	32 254
Other fee and commission income	2 357	2 706
	287 013	**279 878**
Fees and commissions expenses		
With banking services rendered by third parties	31 309	31 497
With guarantees received	1 564	1 755
With transaction of securities	2 195	2 259
Other fee and commission income	5 228	5 927
	40 296	**41 438**
	246 717	**238 440**

NOTE 11 – GAINS OR LOSSES ON FINANCIAL OPERATIONS

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2021			31.12.2020		
	Gains	Losses	Total	Gains	Losses	Total
Gains or losses on financial assets and liabilities not measured at fair value through profit or loss						
Of financial assets at fair value through other comprehensive income						
Securities						
Bonds and other fixed income securities						
Issued by government and public entities	15 088	12 758	2 330	93 160	6 529	86 631
Issued by other entities	11 021	1 073	9 948	1 010	7 482	(6 472)
	26 109	**13 831**	**12 278**	**94 170**	**14 011**	**80 159**
Of financial assets and liabilities at amortized cost						
Securities						
Bonds and other fixed income securities						
Issued by other entities	-	142	(142)	6 281	154	6 127
Credit	12 639	32 009	(19 370)	8 336	8 439	(103)
	12 639	**32 151**	**(19 512)**	**14 617**	**8 593**	**6 024**
	38 748	**45 892**	**(7 234)**	**108 787**	**22 604**	**86 183**
Gains or losses on financial assets and liabilities held for trading						
Securities						
Bonds and other fixed income securities						
Issued by government and public entities	3 252	14 507	(11 255)	13 710	13 121	589
Issued by other entities	43	20	23	5	-	5
Derivative financial instruments						
Exchange rates contracts	59 419	62 526	(3 107)	68 245	52 681	15 564
Interest rate contracts	422 828	358 646	64 182	602 631	711 014	(108 383)
Equity / Index contracts	31 440	30 638	802	82 551	81 243	1 308
Credit default contracts	16	18	(2)	42	44	(2)
Other	4 179	3 600	579	488	777	(289)
	521 177	**469 955**	**51 222**	**767 672**	**858 880**	**(91 208)**
Gains or losses on financial assets mandatorily at fair value through profit or loss						
Securities						
Bonds and other fixed income securities						
Issued by other entities	26 377	6 714	19 663	17 920	90 440	(72 520)
Shares	25 726	457	25 269	23 229	141 374	(118 145)
Other variable income securities	46 328	48 526	(2 198)	1 709	332 103	(330 394)
	98 431	**55 697**	**42 734**	**42 858**	**563 917**	**(521 059)**
Gains or losses from hedge accounting						
Changes in fair value of the hedge instrument						
Interest rate contracts	89 031	41 945	47 086	75 803	97 972	(22 169)
Changes in fair value of the hedged item attributable to the hedged risk	9 732	41 922	(32 190)	43 804	33 688	10 116
	98 763	**83 867**	**14 896**	**119 607**	**131 660**	**(12 053)**
Exchange rate revaluation	**1 115 721**	**1 105 068**	**10 653**	**1 282 775**	**1 284 775**	**(2 000)**
	1 872 840	**1 760 569**	**112 271**	**2 321 699**	**2 861 836**	**(540 137)**

Gains or losses on financial assets and financial liabilities held for trading

In accordance with the accounting policy described in Note 6.5, financial instruments are initially recorded at fair value. It is deemed that the best evidence of the fair value of the instrument at inception is the transaction price. However, in certain circumstances, the fair value of a financial instrument at inception, determined based on valuation techniques, may differ from the transaction price, namely due to the existence of an intermediation fee, originating a day one profit.

The Bank recognizes in its income statement the gains arising from the intermediation fee (day one profit), which is generated, primarily, through currency and derivative financial product intermediation, given that the fair value of these instruments, both at inception and subsequently, is determined based solely on observable market data and reflects the Bank's access to the (wholesale market).

As at 31 December 2021, gains recognized in the income statement arising from intermediation fees, which are essentially related to foreign exchange transactions, amounted to approximately Euro 1,800 thousand (31 December 2020: Euro 5,037 thousand).

Gains or losses on financial assets mandatorily at fair value through profit or loss

As at 31 December 2020, gains or losses on financial assets mandatorily at fair value through profit or loss – securities – shares and other variable income securities, include a loss of Euro 300.2 million, resulting from the completion of an independent valuation to the restructuring funds. These funds are "level 3" assets in accordance with the fair value hierarchy of IFRS 13 (quotes provided by third parties whose parameters used are not observable in the market). novobanco requested an independent assessment from an international consulting firm in conjunction with real estate consulting firms. This work resulted in a market value of Euro 498.8 million for the total investment held in these assets (see Note 22), which led to the recording of the said loss of Euro 300.2 million in 2020 (see Note 38).

Gains or losses on hedge

Gains or losses on hedge accounting include the fair value variations of the hedging instrument (derivative) and the fair value variations of the hedged item attributable to the hedged risk. In the case where the hedge operations are interrupted early, there may occur the payment/receipt of compensation, which is recorded in Other operating expenses/ Other operating income. As at 31 December 2021, the amount of compensation received amounted to Euro 1,726 thousand (31 December 2020: Euro 10,181 thousand).

Exchange differences

This caption includes the results arising from the foreign currency revaluation of monetary assets and liabilities denominated in foreign currency in accordance with the accounting policy described in Note 6.1.

NOTE 12 – GAINS OR LOSSES ON DERECOGNITION OF NON-FINANCIAL ASSETS

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Real Estate	(5 372)	2 625
Equipment	294	(307)
Others	495	(46)
	(4 582)	**2 272**

In the year 2021, as part of the reorganization of the Real Estate Funds held by the novobanco Group, the Bank sold properties of its own service and received in donation to the Real Estate Funds, recording a net loss of 10.6 million euros.

NOTE 13 – OTHER OPERATING INCOME AND OTHER OPERATING EXPENSES

The breakdown of these captions is as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Other operating income		
Gains / (losses) on recoveries of loans	26 310	29 596
Non-recurring advisory services	355	264
Other income	53 088	57 739
	79 753	**87 599**
Other operating expenses		
Losses on the acquisition of debt issued by the Bank (see Note 29)	(73 451)	(19)
Direct and indirect taxes	(3 877)	(5 175)
Contribution to the Banking Sector (see Note 26)	(33 424)	(32 193)
Membership subscriptions and donations	(1 923)	(1 580)
Charges with Supervisory entities	(1 849)	(2 321)
Contractual Indemnities (SPE)	(1 723)	(86)
Other expenses	(25 298)	(48 505)
	(141 545)	**(89 879)**
Other operating income / (expenses)	**(61 792)**	**(2 280)**

As at 31 December 2021, the amount received as compensation for discontinued hedging operations, included in other income, amounts to Euro 1,726 thousand (31 December 2020: Euro 10,181 thousand) (see Note 11).

Pursuant to Law No. 55-A/2010, of 31 December, a Bank Levy was established, which is levied on the average annual liabilities recorded on the balance sheet net of own funds and of deposits covered by the guarantee of the Deposit Guarantee Fund and on the national amount of derivative financial instruments, and whose regime has been extended.

As at 31 December 2021, novobanco recognized Banking Levy charges as a cost in the amount of Euro 28,334 thousand (31 December 2020: Euro 26,981 thousand). The cost recognized as at 31 December 2021 has been calculated and paid based on the maximum rate of 0.110% levied on the average annual liabilities recorded on the balance sheet, net of own funds and deposits covered by the guarantee of the Deposit Guarantee Fund, approved by Law No. 7-A/2016, of 30 March and by Ordinance No. 165-A/2016, of 14 June.

In 2020, following one of the measures provided for in Economic and Social Stabilization Program (SSPE) and following the art. 18 of Law no. 27 -A / 2020, of July 24, the Solidarity Additional on the Banking Sector was created, which, similarly to what happens with the Contribution on the Banking Sector, is levied on the average annual liability calculated balance sheet deducted from own funds and deposits covered by the Deposit Guarantee Fund guarantee and on the notional value of derivative financial instruments. Its settlement is carried out until the end of June of the year following the year to which the surcharge relates. A transitional regime was established for the year 2020 and 2021, the settlement of which was carried out in accordance with the following rules: (i)The reserve base is calculated by reference to the half-yearly average of the final balances of each month, which correspond in the accounts for the first half of 2020, in the case of the solidarity surcharge due in 2020, and in the accounts for the second half of 2020 in the case of the solidarity surcharge due in 2021, published in compliance with the obligation established in Bank of Portugal Notice No. 1/2019; (ii) Settlement is carried out by the taxable person through the declaration to be sent until 15 December 2020 and 2021, respectively, with payment due on the same dates.

As at 31 December 2021, the Bank recognized as an expense in relation to the Solidarity Additional on the Banking Sector the amount of Euro 5,090 thousand (31 December 2020: Euro 5,212 thousand). The recognized expense was calculated and paid based on the maximum rate of 0.02% which is levied on the average annual liability calculated on the balance sheet less the own funds and deposits covered by the Deposit Guarantee Fund guarantee.

NOTE 14 – STAFF EXPENSES

The breakdown of these captions is as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Wages and salaries	164 816	167 702
Remuneration	164 285	166 758
Long-term service / Career bonuses (see Note 15)	531	944
Mandatory social charges	45 940	51 170
Costs with post-employment benefits (see Note 15)	769	432
Other costs	3 469	4 300
	214 994	**223 604**

The provisions and costs related to the restructuring process are presented in Note 31.

As at 31 December 2021 and 2020, the number of employees of the Bank, considering the staff and the contracted term, presents the following breakdown by professional category:

	31.12.2021	31.12.2020
Directive functions	394	384
Management functions	431	485
Specific functions	1 869	2 036
Administrative and other functions	1 224	1 351
	3 918	**4 256**

NOTE 15 –EMPLOYEE BENEFITS

Pension and health-care benefits

As mentioned in accounting policy 6.26, the Bank has undertaken to provide its employees, or their families, with cash benefits for old-age retirement, disability and survivors' pensions and other liabilities such as a Serviço de Assistência Médico-Social (SAMS), managed by the Union.

For employees hired until 31 December 2008, the retirement pension and the disability, survival and death pensions consecrated under the ACT, as well as the liabilities for health-care benefits (SAMS), are covered by a closed pension fund, managed by GNB – Sociedade Gestora de Fundos de Pensões, S.A..

Protection of employees in the event of maternity, paternity and adoption, as well as old age, is covered by the General Social Security Regime, given that with the publication of Decree-Law No. 1-A/2011, of 3 January, all banking employees who were beneficiaries of "CAFEB – Caixa de Abono de Família dos Empregados Bancários" were integrated in the General Social Security Regime as from 1 January 2011.

Employees hired after 31 December 2008 are covered by the Portuguese General Social Security Regime.

Retirement pensions of banking employees integrated in the General Social Security Regime within the scope of the 2nd tripartite agreement continue to be calculated in accordance with the provisions of the ACT and other conventions; however, banking employees are entitled to receive a pension under the General Regime that considers the number of years of contributions under that regime. The Banks are responsible for the difference between the pension determined in accordance with the provisions of the ACT and that which the banking employees are entitled to receive from the Collective Bargaining Agreement.

The contribution rate is 26.6%, 23.6% paid by the employer and 3% paid by the employees on the behalf of Caixa de Abono de Família dos Empregados Bancários (CAFEB), abolished by said Decree-law. In consequence of this change, pension entitlements of active employees are to be covered on the terms defined under the General Social Security Regime, for the length of their employment between 1 January 2011 and their retirement date. The differential required to make up the pension guaranteed under the ACT is paid by the Banks.

At the end of financial year 2011 and pursuant to the 3rd tripartite agreement, it was decided to transfer, definitively and irreversibly, to the General Social Security Regime all the banks' liabilities with pensions in payment to retirees and pensioners that were in that condition as of 31 December 2011 at constant values (0% discount rate) for the component foreseen in the "Instrumento de Regulação Coletiva de Trabalho" (IRCT) applicable to banking employees, including the eventualities of death, disability and survival. The liabilities relating to the updating of pension amounts, pension benefits other than those to be borne by Social Security, health-care contributions to SAMS, death allowances and deferred survivor's pensions will remain under the banks' responsibility, with the corresponding funding being met through the respective pension funds.

The agreement further established that the financial institutions' pension fund assets relating to the part allocated to the satisfaction responsibilities for those pensions, be transferred to the State.

According to the deliberation of the Board of Directors of Bank of Portugal of 3 August 2014 (8 p.m.), considering the resolution by the same Board of Directors of 11 August 2014 (5 p.m.), and the additional clarifications contained in the deliberation of the Board of Directors of Bank of Portugal, of 11 February 2015, it was clarified that the BES responsibilities not transferred to novobanco relate to the retirement and survival pensions and complementary retirement and survival pensions of the Directors of BES who had been members of its Executive Committee, as defined in BES's Articles of Association and BES's General Assembly Regulations to which the Articles of Association refer, not having, therefore, been transferred to novobanco, without prejudice to the transfer of the responsibilities relating exclusively to the employment contracts with BES.

Considering the foregoing, only the pension fund liabilities arising from the Complementary Executive Committee Plan were split, with a part (described above) remaining in BES, with the other part being transferred to NOVO BANCO, together with the Pension Fund's liabilities relating to the Base Plan and the Complementary Plan.

To quantify the amounts relating to the split of the Pension Fund assets allocated to the liabilities that remained in BES, following the decision of Bank of Portugal of 11 February 2015, from those that were transferred to novobanco, the assets existing on 3 August 2014 were split in proportion to the liabilities calculated on the same date, allocated to each of the groups of former participants and beneficiaries allocated to each of the entities. The split performed on these terms will result, on 3 August 2014, in a level of funding of the Complementary Plan of the Executive Commission that is equal for each of the associates of the Fund (novobanco and BES).

On June 16, 2020, the Insurance and Pension Funds Supervisory Authority ("ASF") approved the extinction of the portion that finances the Plan of the former Executive Committee and, simultaneously, the amendment of the Constitutive Contract of the novobanco Pension Fund. This approval led to the creation of three aspects of the Executive Committee's Pension Plan: (i) Executive Committee - BES, (ii) Executive Committee - NOVO BANCO and (iii) Undivided Party. The assets of the undivided party are not allocated to any liability of novobanco or BES until the final decision of the court (limit of article 402º), so NOVO BANCO transferred the amount of Euro 19,.2 million of net liabilities of the amount of the fund's assets relating to the undivided portion for Provisions.

On 1 June 2016, an amendment was made to *Fundo de Pensões* NB´s constitutive contract, where the complementary plan became a defined contribution instead of a defined benefit plan. Considering this, and in accordance with IAS 19, this plan´s responsibilities and assets are net of the amounts presented for the defined benefit plans.

On 31 December 2021, the amount of Euro 553 thousand was recorded in Personnel Costs related to the defined contribution plan (31 December 2020: Euro 535 thousand).

During 2021, two changes were made to the Pension Fund:

- **Inclusion of Social Security Pension – Pensioners**

  Until 2020, the methodology applied considered pensions in payment by the Pension Fund for the calculation of liabilities with pensioners. In 2021, this methodology was changed for pensioners who started a pension after 2011, and do not have a Social Security pension. For this group of pensioners with age below the normal retirement age of the General Social Security Regime (RGSS), the liability arising from a Social Security pension, to be paid from the normal retirement age of the RGSS, was deducted. As for pensioners over the normal retirement age of the RGSS, the liability arising from a Social Security pension, to be paid from the moment of assessment, was deducted.

- **Inclusion of acquired rights (Clause 98 ACT)**

  In 2021, liabilities with former employees who left novobanco after 2011, and who can claim rights to the Pension Fund under Clause 98 of the ACT, were included.

Pension plan participants are detailed as follows:

	31.12.2021	31.12.2020
Employees	3 995	4 318
Pensioners and survivors	6 914	6 870
Participants under Clause 98	982	-
TOTAL	**11 891**	**11 188**

The Bank's liabilities and coverage levels, calculated in accordance with the accounting policy defined in Note 6.26 - Employee benefits, reportable as at 31 December 2021 and 2020 are analyzed as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Assets / (liabilities) recognized in the balance sheet		
Total liabilities	**(1 887 967)**	**(1 892 669)**
Pensioners	(1 312 843)	(1 345 899)
Employees	(575 124)	(546 770)
Coverage		
Fair value of plan assets	**1 865 405**	**1 867 977**
Net assets / (liabilities) in the balance sheet (see Note 32)	**(22 562)**	**(24 692)**
Accumulated actuarial deviations recognized in other comprehensive income	**781 244**	**705 595**

According to the policy defined in Note 6.16 - Employee Benefits, the Bank calculates liabilities for pensions and actuarial gains and losses half-yearly and evaluates at each balance sheet date and for each plan separately, the recoverability of the excess of the respective pension liabilities.

The evolution of the actuarial gains and losses in the balance sheet can be analysed as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Retirement pension liabilities at beginning of exercise	**1 892 669**	**1 811 526**
Current service cost	441	432
Interest cost	18 421	23 425
Plan participants' contribution	2 613	2 577
Contributions from other entities	214	232
Actuarial (gains) / losses in the period:		
- Changes in financial assumptions	12 260	99 466
- Experience adjustments (gains) / losses	46 124	49 382
Pensions paid by the fund / transfers and once-off bonuses	(75 183)	(72 200)
Amount of the responsabilities transferred to defined contribution plans	-	(54 679)
Social Security and Clause 98	(35 463)	-
Early retirement	38 562	31 592
Foreign exchange differences and other [1]	(12 691)	916
Retirement pension liabilities at end of exercise	**1 887 967**	**1 892 669**

[1] includes 13.019 thousands of Euros from the assets and liabilities sale of the Spanish branch

The evolution of the value of pension funds in the years ended 31 December 2021 and 2020 can be analyzed as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Fair value of fund assets at beginning of exercise	**1 867 977**	**1 659 246**
Net return from the fund	(1 718)	46 131
- Share of the net interest on the assets	15 546	19 482
- Return on assets excluding net interest	(17 264)	26 649
Group contributions	84 735	266 834
Plan participants' contributions	2 613	2 577
Pensions paid by the fund / transfers and once-off bonuses	(75 183)	(72 200)
Transfer to Undivided Party	-	(35 523)
Foreign exchange differences and other (1)	(13 019)	912
Fund balance at the end of the year	**1 865 405**	**1 867 977**

(1) includes 13.019 thousands of Euros from the assets and liabilities sale of the Spanish branch

Pension fund assets can be analyzed as follows:

(in thousands of Euros)

	31.12.2021			31.12.2020		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Equity instruments	-	51 214	51 214	39 034	-	39 034
Debt instruments	1 171 603	-	1 171 603	1 093 577	-	1 093 577
Investment funds	258 990	100 513	359 503	306 217	66 761	372 978
Real estate properties	-	150 344	150 344	-	115 855	115 855
Cash and cash equivalents	-	132 741	132 741	-	246 533	246 533
Total	**1 430 593**	**434 812**	**1 865 405**	**1 438 828**	**429 149**	**1 867 977**

The pension fund assets used by the Bank or representative of securities issued by entities of the Group are detailed as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Cash and Cash Equivalents	41 827	63 627
Real estate properties	43 032	63 630
Total	**84 859**	**127 257**

The key actuarial assumptions used to calculate retirement pension and health-care liabilities are identical and are as follows:

	31.12.2021		31.12.2020	
	Assumptions	Actual	Assumptions	Actual
Actuarial Assumptions				
Projected rate of return on plan assets	1.35%	-0.24%	1.00%	2.41%
Discount rate	1.35%	-	1.00%	-
Pension increase rate	0.50%	0.36%	0.25%	1.34%
Salary increase rate	0.75%	2.05%	0.50%	3.07%
Mortality table men	TV 88/90		TV 88/90	
Mortality table women	TV 88/90-3 years		TV 88/90-2 years	

Disability decreases are not considered in the calculation of the liabilities. The determination of the discount rate as of 31 December 2021 and 31 December 2020 was based on: (i) the evolution of the main indices for high quality corporate bonds and (ii) the duration of the liabilities.

As at 31 December 2021 and 2020, the sensitivity analysis to a 0.25% change in the assumptions rate used and one year in the mortality table results in the following changes in the current value of liabilities determined for past services:

(in thousands of Euros)

Assumptions	Change in the amount of liabilities due to the change:			
	31.12.2021		31.12.2020	
	of +0.25% in the rate used	of -0.25% in the rate used	of +0.25% in the rate used	of -0.25% in the rate used
Discount rate	(72 318)	76 890	(72 395)	77 186
Salary increase rate	13 336	(12 845)	26 348	(16 750)
Pension increase rate	67 955	(63 608)	56 848	(52 114)
	of +1 year	of -1 year	of +1 year	of -1 year
Mortality table	(67 288)	67 602	(69 944)	70 931

The evolution of actuarial deviations on the balance sheet can be analyzed as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Accumulated actuarial losses recognized in other comprehensive income at the beginning of the period	**705 595**	**583 396**
Actuarial (gains) / losses in the period:		
- Changes in assumptions		
- Financial assumptions	12 260	99 466
- Plan assets return (excluding net interest)	63 388	22 733
Other	1	-
Accumulated actuarial losses recognized in other comprehensive income at the end of the period	**781 244**	**705 595**

The costs of retirement pensions and health benefits for the years ended 31 December 2021 and 2020 can be analyzed as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Current service cost	441	432
Net interest	2 875	3 943
Early retirement	328	-
Cost with post-employment benefits	**3 644**	**4 375**

The evolution of net assets / (liabilities) on the balance sheet can be analyzed in the years ended 31 December 2021 and 2020 as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
At the beginning of the exercise	**(24 692)**	**(152 280)**
Cost for period	(3 644)	(4 375)
Actuarial gains / (losses) recognized in other comprehensive income	(75 649)	(122 199)
Contributions made in the period	84 735	266 834
Undivided transfer and reduction of responsabilities	-	19 155
Social Security and Clause 98	35 463	-
Other	(38 775)	(31 827)
At the end of the exercise	**(22 562)**	**(24 692)**

In 2021, the value of early retirements amounted to Euro 38.9 million (31 December 2020: Euro 31.6 million), which are part of the Bank's restructuring process and, as such, they were recognized against the use of the provision for restructuring (see Note 31). These amounts are considered in Other in the previous table.

The summary of the last five years of the funds' liabilities and the funds balances, as well as experience gains and losses, is analyzed as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020	31.12.2019	31.12.2018	31.12.2017
Retirement pension liabilities	(1 887 967)	(1 892 669)	(1 811 526)	(1 641 964)	(1 629 305)
Funds balance	1 865 405	1 867 977	1 659 246	1 615 249	1 614 543
(Under) / overfunding of liabilities	**(22 562)**	**(24 692)**	**(152 280)**	**(26 715)**	**(14 762)**
(Gains) / losses on experience adjustments in retirement pension liabilities	46 124	49 382	63 084	18 400	14 859
(Gains) / losses on experience adjustments in plan assets	17 264	(26 649)	(79 888)	52 175	(91 005)

The average duration of defined benefit plan liabilities is approximately 16 years (31 December 2020: approximately 16 years).

Career Bonuses

As at 31 December 2021, the liabilities assumed by the Bank amounted to Euro 7,335 thousand, corresponding to the liabilities for past services subjacent to the career bonuses, as described in Note 6.26 – Employee benefits (31 December 2020: Euro 7,465 thousand) (see Note 32).

In the financial year 2021, the costs recognized with career bonuses were Euro 531 thousand (31 December 2020: Euro 944 thousand) (see Note 14).

NOTE 16 – OTHER ADMINISTRATIVE EXPENSES

The breakdown of this caption is as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Rentals	5 716	2 246
Advertising	5 426	5 799
Communication	8 637	9 360
Maintenance and repairs expenses	8 026	8 523
Travelling and representation	1 399	1 210
Transportation of valuables	3 079	4 354
Insurance	5 162	3 020
IT services	36 845	43 196
Independent work	1 355	2 080
Temporary work	902	1 287
Electronic payment systems	10 084	10 593
Legal costs	3 402	4 699
Consultancy and audit fees	20 982	23 589
Water, energy and fuel	2 867	3 053
Consumables	1 318	1 404
Other costs	16 781	19 618
	131 981	**144 031**

The caption Other costs includes, amongst others, specialised service costs incurred with security and surveillance, information services, training and sundry external supplies.

As at 31 December 2021, rental costs includes an amount of Euro 582 thousand related to short-term operating lease contracts (31 December 2020: Euro 196 thousand), as described in Note 6.23.

The fees invoiced during the years 2021 and 2020 by the Statutory Audit Firm, according to that laid down in article 508-F of the Portuguese Companies Code (*Código das Sociedades Comerciais*), have the following:

(milhares de euros)

	31.12.2021	31.12.2020
Revisão Oficial de Contas	1 743	2 176
Outros serviços	1 309	738
Valor total dos serviços faturados	**3 052**	**2 914**

NOTE 17 – CONTRIBUTIONS TO RESOLUTION FUNDS AND DEPOSIT GUARANTEE SCHEMES

This caption on 31 December 2021 and 2020 is analyzed as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Contribution to the Fundo Único de Resolução	25 276	22 201
Contribution to the Fundo de Resolução Nacional	14 854	12 528
Contribution to the Fundo de Garantia de Depósitos	42	37
	40 172	**34 766**

NOTE 18 – IMPAIRMENT

(in thousands of Euros)

	31.12.2021			31.12.2020		
	Reinforcements	Replacements	Total	Reinforcements	Replacements	Total
Provisions net of cancellations (see Note 31)						
Provisions for guarantees	18 435	(31 191)	(12 756)	44 572	(29 479)	15 093
Provisions for commitments	10 630	(7 774)	2 856	11 813	(5 311)	6 502
Other provisions	159 330	(37 660)	121 670	270 183	(103 939)	166 244
	188 395	**(76 625)**	**111 770**	**326 568**	**(138 729)**	**187 839**
Impairments or reversal of impairments on financial assets not measured at fair value through profit or loss (see Note 22)						
Securities at fair value through equity	1 252	(895)	357	3 518	(5 022)	(1 504)
Securities at amortized cost	1 215 623	(1 168 664)	46 959	738 750	(696 383)	42 367
Loans and advances to credit institutions	135 018	(133 210)	1 808	320 558	(130 962)	189 596
Loans and advances to customers	289 202	(142 096)	147 106	791 619	(271 103)	520 516
	1 641 095	**(1 444 865)**	**196 230**	**1 854 445**	**(1 103 470)**	**750 975**
Impairments or reversal of impairments for investments in subsidiaries, joint ventures and associates (see Note 24)	**-**	**(49 691)**	**(49 691)**	**48 388**	**(7 103)**	**41 285**
Impairments or reversal of impairments on non-financial assets						
Non-current assets held for sale and Discontinued operations (see Note 29)	10 000	-	10 000	170 460	-	170 460
Property, plant and equipment (see Note 25)	-	(1 617)	(1 617)	2 776	-	2 776
Intangible assets (see Note 26)	-	-	-	-	-	-
Other assets (see Note 28)	17 543	(13 857)	3 686	53 588	(11 427)	42 161
	27 543	**(15 474)**	**12 069**	**226 824**	**(11 427)**	**215 397**
	1 857 033	**(1 586 655)**	**270 378**	**2 456 225**	**(1 260 729)**	**1 195 496**

NOTE 19 – EARNINGS PER SHARE

Basic earnings per share

The basic earnings per share are calculated dividing the net profit attributable to the shareholders of the Bank by the weighted average number of ordinary shares in circulation during the financial year / period.

(in thousands of Euros)

	31.12.2021	31.12.2020
Net profit / (loss) attributable to shareholder of the Bank	**225 908**	**(1 374 246)**
Weighted average number of common shares outstanding (thousands)	9 800 000	9 800 000
Basic earnings per share attributable to shareholders of novobanco (in Euros)	**0.02**	**(0.14)**
Basic earnings per share from continuing activities attributable to shareholders of novobanco (in Euros)	**0.02**	**(0.14)**

Diluted earnings per share

The diluted earnings per share are calculated considering the net profit attributable to the shareholders of the Bank and the weighted average number of ordinary shares in circulation, adjusted for the effects of all potential dilutive ordinary shares.

The diluted earnings per share do not differ from the basic earnings per share since there are no dilutive effects.

NOTE 20 – CASH, CASH BALANCES AT CENTRAL BANKS AND OTHER DEMAND DEPOSITS

As at 31 December 2021 and 31 December 2020, this caption is analysed as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Cash	**144 220**	**142 325**
Demand Deposits in central banks		
Bank of Portugal	5 261 912	2 289 339
Other Central Banks	2 717	3 458
	5 264 629	**2 292 797**
Deposits in other credit institutions in the country		
Repayable on demand	63 116	13 250
Uncollected checks	162 783	50 994
	225 899	**64 244**
Deposits with banks abroad		
Repayable on demand	39 713	25 502
	39 713	**25 502**
	5 674 461	**2 524 868**

The caption Demand Deposits with Bank of Portugal includes mandatory deposits to comply with the minimum legal cash reserve requirements in an amount of Euro 250.3 million (31 December 2020: Euro 262.2 million). According to the European Central Bank Regulation (EU) No. 1358/2011, of 14 December 2011, minimum cash requirements of demand deposits with Bank of Portugal are interest-bearing and correspond to 1% of the deposits and debt certificates maturing in less than 2 years, after excluding from these the deposits of institutions subject to the European System of Central Banks minimum reserve requirements. As at 31 December 2021 and 2020, the average interest rate on these deposits was null.

Compliance with minimum cash requirements, for a given observation period, is monitored taking into account the average amount of the deposits with Bank of Portugal over said period. The balance of the account with Bank of Portugal as at 31 December 2021 was included in the observation period running from 22 December 2021 to 08 February 2022.

Checks to be collected on credit institutions at home and abroad were sent for collection within the first business days following the reference dates.

NOTE 21 – FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

As at 31 December 2021, and 31 December 2020, this caption is analysed as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Financial assets held for trading		
Securities		
Securities held for trading		
Bonds and other fixed income securities		
Issued by government and public entities	114 465	267 016
	114 465	**267 016**
Derivatives		
Derivatives held for trading with positive fair value	263 244	388 311
	263 244	**388 311**
	377 709	**655 327**
Financial liabilities held for trading		
Derivatives		
Derivatives held for trading with negative fair value	305 512	554 343
	305 512	**554 343**

Securities held for trading

In accordance with the accounting policy described in Note 6.10.5, securities held for trading are those acquired to be traded in the short-term regardless of their maturity.

As at 31 December 2021, and 2020, the schedule of securities held for trading by maturity is as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
From one to five years	-	3 734
More than five years	114 465	263 282
	114 465	**267 016**

A breakdown of the securities held for trading, by fair value hierarchy, is presented in Note 38.

Derivatives

As at 31 December 2021 and 31 December 2020, this caption is analysed as follows:

(in thousands of Euros)

	31.12.2021			31.12.2020		
	Notional	Fair value		Notional	Fair value	
		Assets	Liabilities		Assets	Liabilities
Trading derivatives						
Exchange rate contracts						
Forward						
- acquisition	541 169	2 702	6 872	578 826	23 668	7 893
- sales	545 093			562 420		
Currency Swaps						
- acquisition	497 717	680	1 949	1 010 248	1 499	5 488
- sales	499 124			1 010 906		
Currency Interest Rate Swaps						
- acquisition	21 083	20 024	20 103	21 390	21 363	21 363
- sales	21 083			21 390		
Currency Options						
- acquisition	304 349	5 766	5 766	168 095	10 743	10 706
- sales	304 349			167 870		
		29 172	**34 690**		**57 273**	**45 450**
Interest rate contracts						
Interest Rate Swaps						
- acquisition	5 645 388	224 327	265 070	6 758 221	318 578	499 616
- sales	5 645 388			6 759 223		
Interest Rate Caps & Floors						
- acquisition	86 436	869	2 819	89 767	1 084	3 961
- sales	166 554			165 221		
		225 196	**267 889**		**319 662**	**503 577**
Stock / index contracts						
Equity / Index Swaps						
- acquisition	-	-	-	30 467	2 337	2 204
- sales	-			30 467		
Equity / Index Options						
- acquisition	525 436	8 180	2 359	662 425	9 039	3 096
- sales	525 436			684 421		
		8 180	**2 359**		**11 376**	**5 300**
Default risk contracts						
Credit Default Swaps						
- acquisition	-	-	-	2 399	-	16
- sales	-			2 399		
		-	**-**		**-**	**16**
Commodities contracts						
Commodities Swaps						
- acquisition	29 633	696	574	-	-	-
- sales	29 633			-		
		696	**574**		**-**	**-**
		263 244	**305 512**		**388 311**	**554 343**

a) Derivatives traded on organized markets, the market value of which is settled daily against the margin account (see Note 31)

Fair value option derivatives include instruments designed to manage the risk associated with certain financial assets and liabilities designated at fair value through profit or loss, in accordance with the accounting policy described in Notes 6.10.6 and 6.10.7, and which the Bank has not designated for hedge accounting.

In the financial year of 2021, the Bank recognized a loss of Euro -454 thousand related to the CVA of derivative instruments (31 December 2020: loss of Euro 289 thousand). The way of determining the CVA is explained in Note 38.

As at 31 December 2021 and 2020, the analysis of the derivatives held for trading by maturity period is as follows:

(in thousands of Euros)

	31.12.2021			31.12.2020		
	Notional		Fair Value (net)	Notional		Fair Value (net)
	Assets	Liabilities		Assets	Liabilities	
Derivatives held for negotiation						
Up to 3 months	1 136 849	1 142 438	(6 115)	1 596 056	1 596 370	32
From 3 months to 1 year	654 256	653 806	5 459	821 366	805 003	8 725
From 1 to 5 years	1 634 973	1 641 635	2 792	2 329 447	2 347 986	(23 383)
More than 5 years	4 225 133	4 298 781	(44 404)	4 574 969	4 654 958	(151 406)
	7 651 211	**7 736 660**	**(42 268)**	**9 321 838**	**9 404 317**	**(166 032)**

NOTE 22 – FINANCIAL ASSETS MANDATORILY AT FAIR VALUE THROUGH PROFIT OR LOSS, DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS, AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME AND AT AMORTISED COST

As at 31 December 2021, and 31 December 2020, this caption is analysed as follows:

(in thousands of Euros)

	31.12.2021				
	Mandatorily at fair value through profit and loss	Fair value through other comprehensive income	Amortised cost	Fair value changes *	Total
Securities	2 250 308	7 133 508	2 893 829	(3 136)	12 274 509
Loans and advances to banks	-	-	186 089	-	186 089
Loans and advances to customers	-	-	21 897 382	31 923	21 929 305
	2 250 308	**7 133 508**	**24 977 300**	**28 787**	**34 389 903**

* Fair value changes of the elements covered by the interest rate hedge portfolio (see Note 23)

(in thousands of Euros)

	31.12.2020				
	Mandatorily at fair value through profit and loss	Fair value through other comprehensive income	Amortised cost	Fair value changes *	Total
Securities	2 445 605	7 813 584	2 873 753	1 129	13 134 071
Loans and advances to banks	-	-	245 472	-	245 472
Loans and advances to customers	-	-	21 685 258	59 847	21 745 105
	2 445 605	**7 813 584**	**24 804 483**	**60 976**	**35 124 648**

* Fair value changes of the elements covered by the interest rate hedge portfolio (see Note 23)

Securities

As of 31 December 2021, and 31 December 2020, the detail of securities portfolio is as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Securities mandatorily at fair value through profit or loss		
Bonds and other fixed income securities		
From other issuers	559 227	647 082
Shares	425 363	403 752
Other securities with variable income	1 265 718	1 394 771
	2 250 308	**2 445 605**
Securities at fair value through other comprehensive income		
Bonds and other fixed income securities		
From public issuers	5 685 067	6 406 465
From other issuers	1 398 899	1 352 759
Shares	49 542	54 360
	7 133 508	**7 813 584**
Securities at amortised cost		
Bonds and other fixed income securities		
From public issuers	371 273	415 192
From other issuers	2 770 328	2 661 021
Impairment	(247 772)	(202 460)
	2 893 829	**2 873 753**
Value adjustments for hedging operations for interest rate risk (See Note 23)	(3 136)	1 129
	12 274 509	**13 134 071**

The securities mandatorily accounted at fair value through profit or loss include the participation units held by the Bank in Restructuring Funds, which are accounted for in accordance with the accounting policy described in Note 6.10.4, based on the net book value disclosed by the Management Companies, which may be adjusted according to information, analyzes or independent evaluations deemed necessary to determine its fair value, in response to guidelines from the European Central Bank.

At the end of 2020, novobanco completed the independent assessment of the restructuring funds. These funds are "level 3" assets in accordance with the fair value hierarchy of IFRS 13 (quotations provided by third parties whose parameters used are not observable in the market), and novobanco requested an independent evaluation from an international consulting company in articulation with real estate consultancy companies. This work resulted in a market value of Euro 498.8 million for the total investment held in these assets, which led to the recording of a loss of Euro -300.2 million in the year 2020 recorded under the heading of gains or losses with financial assets mandatorily accounted for at fair value through profit or loss (see Note 11). This assessment included the establishment of assumptions for the valuation of assets included in the funds, a discount at the level of the fund based on parameters equivalent to quoted funds and an appreciation of the potential evolution of the fund (see Note 38).

As at 31 December 2021 and 2020, the detail of the fair value securities through other comprehensive income is as follows:

(in thousands of Euros)

	Cost [1]	Fair value reserve		Balance sheet value	Impairment reserves
		Positive	Negative		
Bonds and other fixed income securities					
From public issuers	**5 484 078**	**204 864**	**(3 875)**	**5 685 067**	**(2 995)**
Residents	2 406 121	86 400	-	2 492 521	(1 466)
Non residents	3 077 957	118 464	(3 875)	3 192 546	(1 529)
From other issuers	**1 374 554**	**30 008**	**(5 663)**	**1 398 899**	**(673)**
Residents	29 609	63	(2 335)	27 337	(3)
Non residents	1 344 945	29 945	(3 328)	1 371 562	(670)
Shares	**398 186**	**11 810**	**(360 454)**	**49 542**	**-**
Residents	328 230	10 567	(298 226)	40 571	-
Non residents	69 956	1 243	(62 228)	8 971	-
Other securities with variable income	**3**	**-**	**(3)**	**-**	**-**
Residents	3	-	(3)	-	-
Balance as at 31 December 2021	**7 256 821**	**246 682**	**(369 995)**	**7 133 508**	**(3 668)**

(1) Aquisition cost referring to shares and other equity instruments and amortized cost for debt securities.

(in thousands of Euros)

	Cost [1]	Fair value reserve		Balance sheet value	Impairment reserves
		Positive	Negative		
Bonds and other fixed income securities					
From public issuers	**6 050 592**	**356 115**	**(242)**	**6 406 465**	**(3 095)**
Residents	2 571 260	125 602	-	2 696 862	(1 405)
Non residents	3 479 332	230 513	(242)	3 709 603	(1 690)
From other issuers	**1 286 344**	**68 749**	**(2 334)**	**1 352 759**	**(565)**
Residents	29 605	107	(2 334)	27 378	(3)
Non residents	1 256 739	68 642	-	1 325 381	(562)
Shares	**407 319**	**12 548**	**(365 507)**	**54 360**	**-**
Residents	331 888	11 330	(296 014)	47 204	-
Non residents	75 431	1 218	(69 493)	7 156	-
Other securities with variable income	**2**	**-**	**(2)**	**-**	**-**
Residents	2	-	(2)	-	-
Balance as at 31 December 2020	**7 744 257**	**437 412**	**(368 085)**	**7 813 584**	**(3 660)**

(1) Aquisition cost referring to shares and other equity instruments and amortized cost for debt securities.

During the year 2021, the Bank sold Euro 934,4 million of financial instruments classified at fair value through other comprehensive income (31 December 2020: Euro 1 295,0 million), with a gain of Euro 12,3 million (31 December 2020: gain of Euro 80,2 million), recorded in the income statement, from the sale of debt instruments and a loss of Euro 9,5 million that were transferred from revaluation reserves to sales-related reserves (31 December 2020: loss of Euro 16.4 million).

The movements in the impairment reserves in fair value securities through other comprehensive income are presented as follows:

(in thousands of Euros)

	Impairment movement of securities at fair value through other comprehensive income			
	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2019	**5 505**	**-**	**-**	**5 505**
Increases due to changes in credit risk	3 480	38	-	3 518
Decreases due to changes in credit risk	(5 022)	-	-	(5 022)
Utilization during the period	(232)	(44)	-	(276)
Other movements	(64)	6	-	(58)
Balance as at 31 December 2020	**3 667**	**-**	**-**	**3 667**
Increases due to changes in credit risk	1 252	-	-	1 252
Decreases due to changes in credit risk	(895)	-	-	(895)
Utilization during the period	(384)	-	-	(384)
Other movements	28	-	-	28
Balance as at 31 December 2021	**3 668**	**-**	**-**	**3 668**

Changes in impairment losses on amortized cost securities are as follows:

(in thousands of Euros)

	Impairment movement of securities at amortised cost			
	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2019	**3 758**	**53 974**	**102 422**	**160 154**
Increases due to changes in credit risk	11 256	716 961	10 533	738 750
Decreases due to changes in credit risk	(10 094)	(682 995)	(3 294)	(696 383)
Utilization during the period	(36)	(2)	-	(38)
Other movements	296	(318)	(1)	(23)
Balance as at 31 December 2020	**5 180**	**87 620**	**109 660**	**202 460**
Increases due to changes in credit risk	9 264	1 058 247	148 112	1 215 623
Decreases due to changes in credit risk	(8 074)	(1 107 544)	(53 046)	(1 168 664)
Utilization during the period	(12)	(1)	(1 640)	(1 653)
Other movements	(112)	(39)	157	6
Balance as at 31 December 2021	**6 246**	**38 283**	**203 243**	**247 772**

In accordance with the accounting policy mentioned on Note 6.16, the Bank regularly evaluate if there is any objective evidence of impairment in its securities portfolio at a fair value through other comprehensive income based on the judgement criteria mentioned on Note 7.1.

The dotation for impairment for securities during 2020 financial year include Euro 29,0 million, reflecting the update of information in IFRS 9 models, anticipating losses related to the Covid-19 pandemic.

As at 31 December 2021, and 2020, the securities portfolio, by residual maturity period, is as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Securities mandatorily at fair value through profit or loss		
Up to 3 months	41 741	75 553
From 3 months to 1 year	-	32 670
From 1 to 5 years	2 443	39 966
More than 5 years	515 043	498 893
Undetermined (Overdue Loans)	1 691 081	1 798 523
	2 250 308	**2 445 605**
Securities mandatority at fair value through other comprehensive income		
Up to 3 months	451 043	216 825
From 3 months to 1 year	988 943	760 409
From 1 to 5 years	3 021 902	3 904 755
More than 5 years	2 622 078	2 877 235
Undetermined (Overdue Loans)	49 542	54 360
	7 133 508	**7 813 584**
Securities at amortized cost (*)		
Up to 3 months	709 932	754 292
From 3 months to 1 year	139 547	113 105
From 1 to 5 years	483 503	267 980
More than 5 years	1 808 619	1 940 836
	3 141 601	**3 076 213**
	12 525 417	**13 335 402**

(*) Gross Value before impairment

The detail of the securities portfolio by fair value hierarchy is presented in Note 38.

The portfolio securities pledged by the bank are analysed in Note 35.

Loans and advances to Banks

As at 31 December 2021 and 31 December 2020, the detail of Loans and advances to banks is as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Loans and advances to banks in Portugal		
Very short-term placements	-	4 075
Deposits	136 408	136 440
Loans	44 770	30 429
Other loans and advances	3	4
	181 181	**170 948**
Loans and advances to banks abroad		
Deposits	6 089	10 532
Other loans and advances	2	279 419
	6 091	**289 951**
Outstanding applications	**-**	**34 726**
	187 272	**495 625**
Impairment losses	**(1 183)**	**(250 153)**
	186 089	**245 472**

Investments in credit institutions are all recorded in the amortised cost portfolio.

As at 31 December 2021 and 2020, the analysis of loans and advances to banks, by residual maturity is as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Up to 3 months	35 213	51 484
From 3 months to 1 year	107 809	100 259
From 1 to 5 years	38 282	303 188
More than 5 years	5 968	5 968
Undetermined (Overdue Loans)	-	34 726
	187 272	**495 625**

Changes in impairment losses on loans and advances to banks are presented as follows:

(in thousands of Euros)

	Loans and advances to banks			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance as at 31 December 2019	**367**	**76 341**	**426**	**77 134**
Increases due to changes in credit risk	556	2 462	317 540	320 558
Decreases due to changes in credit risk	(477)	(1 965)	(128 520)	(130 962)
Other movements	(1)	(76 836)	60 260	(16 577)
Balance as at 31 December 2020	**445**	**2**	**249 706**	**250 153**
Increases due to changes in credit risk	414	541	134 063	135 018
Decreases due to changes in credit risk	(544)	(102)	(132 564)	(133 210)
Uses	(101 282)	-	(167 728)	(269 010)
Other movements	101 251	33	(83 052)	18 232
Balance as at 31 December 2021	**284**	**474**	**425**	**1 183**

The increase of impairment for investments in credit institutions verified in 2020 results from the degradation of the credit risk of international exposures analyzed on an individual basis, whose partial default situation at the end of 2020, among other signs of impairment, led to the transfer of the same to stage 3 and the constitution of additional impairments of Euro 189.6 million. During 2021 part of this exposure was settled, with the remaining exposure being restructured and subsequently derecognized, in line with the amendment made in May 2021 to the CCA contract, which extinguished novobanco's rights and risks on this asset.

Loans and advances to customers

As at 31 December 2021 and 31 December 2020, the detail of loans and advances to customers is presented as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Domestic loans and advances		
Corporate		
Current account loans	1 097 525	1 109 729
Loans	8 819 590	8 876 278
Discounted bills	75 502	80 430
Factoring	593 512	575 682
Overdrafts	13 453	7 105
Financial leases	1 245 885	1 421 765
Other loans and advances	17 693	20 974
Individuals		
Residential Mortgage loans	7 260 274	7 368 861
Consumer credit and other loans	1 063 923	1 007 365
	20 187 357	**20 468 189**
Foreign loans and advances		
Corporate		
Current account loans	66 348	851 791
Loans	1 319 819	146 986
Discounted bills	2	4
Factoring	40 519	51 483
Overdrafts	54	8 321
Other loans and advances	1	1
Individuals		
Residential Mortgage loans	1 037 140	949 211
Consumer credit and other loans	180 412	180 022
	2 644 295	**2 187 819**
Overdue loans and advances and interests		
Under 90 days	18 931	13 457
Over 90 days	282 556	602 796
	301 487	**616 253**
	23 133 139	**23 272 261**
Impairment losses	**(1 235 757)**	**(1 587 003)**
	21 897 382	**21 685 258**
Fair value adjustaments of interest rate hedges (See Note 23)		
Corporate		
Loans	4 035	6 774
Individuals		
Residential Mortgage loans	27 888	53 073
	31 923	**59 847**
	21 929 305	**21 745 105**

Loans to customers are all recorded in the amortised cost portfolio.

As at 31 December 2021, the caption Loans and advances to customers include Euro 6,075.1 million of mortgage loans related to the issuance of mortgage bonds (31 December 2020: Euro 6,104.8 million) (see Note 30).

As at 31 December 2021, the amount of interest and commissions recorded in the balance sheet relating to credit operations amounts to Euro 17,773 thousand (31 December 2020: Euro 24,765 thousand).

As at 31 December 2021 and 2020, the analysis of loans and advances to customers, by residual maturity period, is as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Up to 3 months	1 139 039	971 494
From 3 months to 1 year	1 217 721	1 243 984
From 1 to 5 years	5 771 766	5 112 417
More than 5 years	14 735 049	15 387 960
Undetermined duration (Overdue)	301 487	616 253
	23 165 062	**23 332 108**

Changes in credit impairment losses are presented as follows:

(in thousands of Euros)

	Impairment movements of loans and advances to customers			
	Stage 1	***Stage 2***	***Stage 3***	**Total**
Balance as at 31 December 2019	**53 065**	**136 972**	**1 651 446**	**1 841 483**
Financial assets derecognised	(2)	-	(294 005)	(294 007)
Increases due to changes in credit risk	38 169	336 436	417 014	791 619
Decreases due to changes in credit risk	(114 202)	(97 277)	(59 624)	(271 103)
Utilization during the period	(16)	(113)	(438 892)	(439 021)
Other movements **(a)**	83 113	(69 574)	(55 507)	(41 968)
Balance as at 31 December 2020	**60 127**	**306 444**	**1 220 432**	**1 587 003**
Financial assets derecognised	(1 282)	(3 073)	(239 704)	(244 059)
Increases due to changes in credit risk	21 760	120 072	147 370	289 202
Decreases due to changes in credit risk	(46 443)	(56 533)	(39 120)	(142 096)
Utilization during the period	-	(194)	(266 278)	(266 472)
Other movements	27 894	(49 445)	33 730	12 179
Balance as at 31 December 2021	**62 056**	**317 271**	**856 430**	**1 235 757**

(a) It includes 58 046 thousand euros of impairment of credits of the Spanish Branch transferred to discontinued operations (22 427 thousand euros in stage 1 and 35 619 thousand euros in stage 3).

The increase of impairment for credit risk during the year 2021 include Euro 71.8 million, reflecting the updating of the information in the IFRS 9 models, anticipating the losses related to the Covid-19 pandemic (31 December de 2020: Euro 218.8 million).

Credit distribution by type of rate is as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Fixed rate	3 965 414	3 883 609
Variable rate	19 199 648	19 448 499
	23 165 062	**23 332 108**

An analysis of finance lease loans, by residual maturity period, is presented as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Gross investment in finance leases receivable		
Up to 1 year	278 587	270 188
1 to 5 years	693 762	761 487
More than 5 years	533 443	571 105
	1 505 792	1 602 780
Unrealized finance income in finance leases		
Up to 1 year	43 611	44 830
1 to 5 years	94 599	67 455
More than 5 years	91 120	32 654
	229 330	144 939
Capital falling due		
Up to 1 year	234 976	225 358
1 to 5 years	599 163	694 032
More than 5 years	442 323	538 451
	1 276 462	1 457 841
Impairment	(226 204)	(220 447)
	1 050 258	**1 237 394**

Sales of Credit Portfolios

2021

Sale of a portfolio of non-performing loans (called Project Orion)

novobanco entered into purchase and sale agreements with a consortium of funds managed by WEST INVEST UK LIMITED PARTNERSHIP and LX INVESTMENT PARTNERS III S.À.R.L. for a portfolio of non-performing loans and related assets (the Project Orion). The net book value of the loans at the date of derecognition amounted to Euro 72,0 million (gross amount of Euro 156,7 million), with an impact on the net income for the year fiscal year 2021 or circa Euro 1.8 million:

(in thousands of Euros)

Impact on the Income Statement	31.12.2021
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	-9 329
Impairments or reversals of impairments on financial assets not measured at fair value through profit or loss	18 395
Provisions or reversal of provisions	-7 310
Impact on Net Income	**1 756**

Sale of a portfolio of non-performing loans (called Project Wilkinson)

On 5 March 2021, novobanco entered into a purchase and sale agreement for a portfolio of non-performing loans and related assets (the Project Wilkinson), with a net book value of Euro 62,3 million (gross amount of Euro 210,4 million), with Burlington Loan Management, a company owned and advised by companies affiliated and advised by Davidson Kempner European Partners, LLP. The impact of this operation on the net income for the fiscal year 2021 was reflected in a loss of Euro 4.5 million.

(in thousands of Euros)

Impact on the Income Statement	31.12.2021
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	-1 363
Impairments or reversals of impairments on financial assets not measured at fair value through profit or loss	-3 175
Impact on Net Income	**-4 538**

2020

Sale of a portfolio of non-performing loans (called Project Carter)

On 23 December 2020, novobanco entered into a purchase and sale agreement for a portfolio of non-performing loans and related assets (together, the Carter Project), with a net book value of Euro 34,1 million (gross amount of Euro 79,1 million), to a company owned by affiliated companies and advised by AGG Capital Management Limited and Christofferson, Robb & Company, LLC. The impact of this operation on the net income for the fiscal year 2020 was reflected in a gain of Euro 2.3 million.

(in thousands of Euros)

Impact on the Income Statement	31.12.2020
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	3 310
Impairments or reversals of impairments on financial assets not measured at fair value through profit or loss	-983
Impact on Net Income	**2 327**

NOTE 23 – DERIVATIVES – HEDGE ACCOUNTING AND FAIR VALUE CHANGES OF THE HEDGED ITEMS

As at 31 December 2021 and 31 December 2020, the fair value of the hedging derivatives is analysed as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Hedging derivatives		
Assets	20 150	13 606
Liabilities	(44 460)	(72 543)
	(24 310)	**(58 937)**
Fair value component of the assets and liabilities hedged for interest rate risk		
Financial assets		
Securities (see Note 22)	(3 136)	1 129
Loans and advances to customers (see Note 22)	31 923	59 847
	28 787	**60 976**

Changes in the fair value of the hedged assets and liabilities mentioned above and of the respective hedging derivatives are recognized in the income statement in the caption Gains and losses from hedge accounting. (see Note 11).

The Bank calculates the "Credit Valuation Adjustment" (CVA) for derivative instruments in accordance with the methodology described in Note 38 - Financial assets and liabilities held for trading.

As at 31 December 2021 and 2020, fair value hedging operations may be analyzed as follows:

(in thousands of Euros)

31.12.2021

Derivative	Hedged item	Hedged risk	Notional	Fair value of derivatives (1)	Change in fair value of derivative in period	Fair value component of item hedged(2)	Change in fair value component of item hedged in period (2)
Interest Rate Swap/CIRS	Loans and advances to customers	Interest rate and exchange rate	2 491 995	(28 494)	31 004	31 923	(27 925)
Interest Rate Swap	Securities at amortized cost	Interest rate	378 000	4 184	3 675	(3 136)	(4 265)
			2 869 995	**(24 310)**	**34 679**	**28 787**	**(32 190)**

(1) Includes accrued interest
(2) Attributable to the hedged risk

(in thousands of Euros)

31.12.2020

Derivative	Hedged item	Hedged risk	Notional	Fair value of derivatives (1)	Change in fair value of derivative in period	Fair value component of item hedged(2)	Change in fair value component of item hedged in period (2)
Interest Rate Swap/CIRS	Loans and advances to customers	Interest and exchange rates	3 347 176	(59 602)	(8 981)	59 847	11 189
Interest Rate Swap	Securities at amortized cost	Interest rate	378 000	665	801	1 129	1 130
			3 725 176	**(58 937)**	**(8 180)**	**60 976**	**12 319**

(1) Includes accrued interest
(2) Attributable to the hedged risk

On 31 December 2021, the ineffective part of the fair value hedging operations, which translated into a cost of Euro 0.2 million, was recorded in the income statement (31 December 2020: profit of Euro 4.1 million). The bank periodically conducts tests of the effectiveness of existing hedging relationships.

Transactions with risk management and hedge derivatives as at 31 December 2021 and 2020, by maturity, can be analyzed as follows:

	31.12.2021			31.12.2020		
	Notional		Fair value (net)	Notional		Fair value (net)
	Buy	Sell		Buy	Sell	
Up to 3 months	65 000	65 000	(705)	-	-	-
From 3 months to 1 year	76 537	76 537	(1 200)	173 866	173 866	(862)
From 1 to 5 years	425 032	425 032	1 514	811 060	811 060	(8 163)
More than 5 years	868 428	868 429	(23 919)	877 662	877 662	(49 912)
	1 434 997	**1 434 998**	**(24 310)**	**1 862 588**	**1 862 588**	**(58 937)**

NOTE 24 – INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

Investments in subsidiaries, joint ventures and associates are presented as follows:

(in thousands of Euros)

	31.12.2021						31.12.2020					
	Nº of shares	Direct participation in capital	Nominal value (euros)	Cost of participation	Impairment	Net Value	Nº of shares	Direct participation in capital	Nominal value (euros)	Cost of participation	Impairment	Net Value
novobanco dos Açores	2 144 404	57.53%	5.00	10 308	-	10 308	2 144 404	57.53%	5.00	10 308	-	10 308
NB Finance	100 000	100.00%	1.00	1 700	-	1 700	100 000	100.00%	1.00	1 700	-	1 700
BEST	62 999 700	100.00%	1.00	100 418	(17 501)	82 917	62 999 700	100.00%	1.00	100 418	(64 818)	35 600
ES Tech Ventures	71 500 000	100.00%	1.00	71 500	(48 293)	23 207	71 500 000	100.00%	1.00	71 500	(50 666)	20 834
GNB GA	2 350 000	100.00%	5.00	86 722	-	86 722	2 350 000	100.00%	5.00	86 722	-	86 722
GNB Concessões	942 306	98.96%	5.00	20 602	(20 602)	-	942 306	98.97%	5.00	20 602	(20 602)	-
ESEGUR	242 000	44.00%	5.00	9 634	(4 460)	5 174	-	-	-	-	-	-
ES Representações	49 995	99.99%	0.16	8	(8)	-	49 995	99.99%	0.16	8	(8)	-
Locarent	525 000	50.00%	5.00	2 967	-	2 967	525 000	50.00%	5.00	2 967	-	2 967
NB África	13 300 000	100.00%	5.00	66 500	(55 514)	10 986	13 300 000	100.00%	5.00	66 500	(55 514)	10 986
Unicre	350 029	17.50%	5.00	11 497	-	11 497	350 029	17.50%	5.00	11 497	-	11 497
Ijar Leasing Algérie	-	-	-	-	-	-	122 499	18.85%	61.94	12 361	(8 035)	4 326
Edenred Portugal	101 477 601	50.00%	0.01	4 984	-	4 984	101 477 601	50.00%	0.01	4 984	-	4 984
Multipessoal	20 000	22.52%	5.00	100	(100)	-	-	-	-	-	-	-
Aroleri	3 500	100.00%	1.00	604	-	604	-	-	-	-	-	-
				387 544	**(146 478)**	**241 066**				**389 567**	**(199 643)**	**189 924**

During 2021 the associated company Ijar Leasing was transferred to non-current assets held for sale as it is in the process of selling assets with the objective of their sale in the short term (see Note 29). The associates ESEGUR and Multipessoal were transferred from non-current assets held for sale to investments in associates, as the sales processes were not active at year end.

The changes in impairment losses for investments in associates are presented as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Balance at the beginning of the exercise	**199 643**	**182 184**
Charges	-	48 388
Uses	-	(22 480)
Reversals	(49 691)	(7 103)
Foreign exchange differences **(a)**	(3 474)	(1 346)
Balance at the end of the exercise	**146 478**	**199 643**

(a) In the exercise of 2021, it includes 8 035 thousand Euros of impairment to Ijar Leasing transferred to Discontinued Operations (See Note 29).

NOTE 25 – PROPERTY, PLANT AND EQUIPMENT

This caption as of 31 December 2021 and 31 December 2020 is analysed as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Real estate properties		
For own use	181 868	220 386
Improvements in leasehold properties	117 734	132 844
	299 602	**353 230**
Equipment		
Computer equipment	109 729	101 230
Fixtures	41 687	54 828
Furniture	51 116	48 803
Security equipment	21 223	23 697
Office equipment	7 898	7 488
Transport equipment	562	562
Other	134	160
	232 349	**236 768**
Right-of-Use Assets		
Real estate properties	107 573	69 375
Equipment	8 468	8 889
	116 041	**78 264**
Work in progress		
Improvements in leasehold properties	431	-
Real estate properties	5 685	1
Others	336	1 417
	6 452	**1 418**
	654 444	**669 680**
Accumulated impairment	(12 071)	(13 385)
Accumulated depreciation	(410 954)	(467 327)
	231 419	**188 968**

The changes in this caption were as follows:

(in thousands of Euros)

	Real estate properties	Equipment	Right-of-Use Assets	Work in progress	Total
Acquisition cost					
Balance at 31 December 2019	**346 552**	**262 032**	**74 691**	**87**	**683 362**
Acquisitions	20 966	11 341	9 645	1 446	43 398
Disposals / write-offs	(3 531)	(9 332)	(6 841)	-	(19 704)
Transfers **(a)**	(1 665)	(153)	-	(115)	(1 933)
Exchange variation and other movements **(b)**	(9 092)	(27 120)	769	-	(35 443)
Balance at 31 December 2020	**353 230**	**236 768**	**78 264**	**1 418**	**669 680**
Acquisitions	30 013	24 184	46 182	16 251	116 630
Disposals / write-offs **(e)**	(88 521)	(28 764)	(8 405)	(4 206)	(129 896)
Transfers **(d)**	4 880	161	-	(7 011)	(1 970)
Balance at 31 December 2021	**299 602**	**232 349**	**116 041**	**6 452**	**654 444**
Depreciation					
Balance at 31 December 2019	**227 152**	**235 093**	**15 756**	**-**	**478 001**
Depreciation	4 711	9 002	18 720	-	32 433
Disposals / write-offs	(3 528)	(8 983)	(4 984)	-	(17 495)
Transfers **(a)**	(903)	(143)		-	(1 046)
Foreign exchange differences and other **(c)**	(2 272)	(24 254)	1 960	-	(24 566)
Balance at 31 December 2020	**225 160**	**210 715**	**31 452**	**-**	**467 327**
Depreciation	5 146	10 044	12 412	-	27 602
Disposals / write-offs **(e)**	(51 182)	(28 224)	(6 188)	-	(85 594)
Transfers	(1 512)	(137)	-	-	(1 649)
Foreign exchange differences and other	3 268	(1)	1	-	3 268
Balance at 31 December 2021	**180 880**	**192 397**	**37 677**	**-**	**410 954**
Impairment					
Balance at 31 December 2019	**10 609**	**-**	**-**	**-**	**10 609**
Impairment losses	2 776	-	-	-	2 776
Balance at 31 December 2020	**13 385**	**-**	**-**	**-**	**13 385**
Impairment losses	3 484	-	-	-	3 484
Reversion of impairment losses	(5 101)	-	-	-	(5 101)
Transfers	303	-	-	-	303
Balance at 31 December 2021	**12 071**	**-**	**-**	**-**	**12 071**
Net book value at 31 December 2021	**106 651**	**39 952**	**78 364**	**6 452**	**231 419**
Net book value at 31 December 2020	**114 685**	**26 053**	**46 812**	**1 418**	**188 968**

(a) Includes 1,951 thousand euros of fixed assets (property and equipment) and 1,064 thousands of euros of accumulated depreciation related to discontinued branches that were transferred at net value to the appropriate balance sheet items

(b) Includes 9,005 and 27,118 thousand euros of property and equipment from the Spanish Branch transferred to discontinued activities during the year 2020

(c) It includes 2,034 and 24,274 thousand euros of depreciation related to the properties and equipment of the Spanish Branch transferred to discontinued activities during the year 2020.

(d) Includes 3,471 thousand euros of fixed assets (property and equipment) and 1,650 thousand euros of accumulated depreciation related to discontinued branches that were transferred at net value to the appropriate balance sheet items.

(e) Includes 66,483 thousand euros of fixed assets (real estate and equipment) and 25,068 thousand euros of accumulated depreciation referring to Own Service Real Estate that was sold to Real Estate Funds of the novobanco Group.

In the fiscal year 2021, as part of the reorganization of the Real Estate Funds held by the novobanco, the Bank sold own service properties to the Real Estate Funds, recording a loss of EUR 14,751 thousand (see Note 12). These properties were subsequently leased to the Bank and are being recorded in accordance with IFRS 16.

NOTE 26 – INTANGIBLE ASSETS

This caption as at 31 December 2021 and 2020, is analyzed as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Internally developed		
Software - Automatic data processing system	65 373	65 373
Acquired from third parties		
Software - Automatic data processing system	379 779	346 389
	445 152	**411 762**
Work in progress	**13 410**	**21 420**
	458 562	**433 182**
Accumulated amortization	(391 047)	(384 851)
	67 515	**48 331**

Internally generated intangible assets include expenses incurred by the Bank's units specializing in the implementation of IT solutions that will bring future economic benefits (see Note 6.24).

The changes in this caption were as follows:

(in thousands of Euros)

	Automatic data processing system	Work in progress	Total
Acquisition cost			
Balance as at 31 December 2019	**429 332**	**17 446**	**446 778**
Acquisitions			
Acquired from third parties	2 373	24 134	26 507
Disposals / write-offs	(20)	-	(20)
Transfers	20 161	(20 161)	-
Foreign exchange differences and other **(a)**	(40 084)	1	(40 083)
Balance as at 31 December 2020	**411 762**	**21 420**	**433 182**
Acquisitions			
Acquired from third parties	3 209	22 171	25 380
Transfers	30 181	(30 181)	-
Balance as at 31 December 2021	**445 152**	**13 410**	**458 562**
Amortizations			
Balance as at 31 December 2019	**420 735**	**-**	**420 735**
Amortization for the period	2 600	-	2 600
Disposals / write-offs	(20)	-	(20)
Foreign exchange differences and other **(b)**	(38 464)	-	(38 464)
Balance as at 31 December 2020	**384 851**	**-**	**384 851**
Amortization for the period	6 197	-	6 197
Foreign exchange differences and other	(1)	-	(1)
Balance as at 31 December 2021	**391 047**	**-**	**391 047**
Net balance at 31 December 2021	**54 105**	**13 410**	**67 515**
Net balance at 31 December 2020	**26 911**	**21 420**	**48 331**

(a) It includes 40 083 thousand Euros of investment projects assigned to the Spanish Branch transferred to discontinued operations during the year 2020.

(b) It includes 38 463 thousand euros of investment projects related to the Spanish Branch that were transferred to discontinued operations during the year 2020.

NOTE 27 – INCOME TAXES

The deferred tax assets and liabilities recognized in the balance sheet as of 31 December 2021 and 2020 may be analyzed as follows:

(in thousands of Euros)

	31.12.2021		31.12.2020	
	Assets	Liabilities	Assets	Liabilities
Current tax	**35 448**	**4 703**	**-**	**5 536**
Corporate tax recoverable	-	4 606	-	5 462
Other	35 448	97	-	74
Deferred tax	**741 321**	**-**	**771 854**	**-**
	776 769	**4 703**	**771 854**	**5 536**

The deferred tax assets and liabilities recognized in the balance sheet in this period are as follows:

(in thousands of Euros)

	Assets		Liabilities		Net	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Financial instruments	91 763	64 012	(77 349)	(136 845)	14 414	(72 833)
Credit impairment (not covered by the special regime)	337 267	387 927	-	-	337 267	387 927
Credit impairment (covered by the special regime)	267 043	400 414	-	-	267 043	400 414
Other tangible assets	-	-	(8 029)	(8 203)	(8 029)	(8 203)
Provisions	82 092	38 975	-	-	82 092	38 975
Pensions	48 534	31 185	-	-	48 534	31 185
Temporary Branch Differences	-	-	-	(5 611)	-	(5 611)
Deferred tax asset / (liability)	**826 699**	**922 513**	**(85 378)**	**(150 659)**	**741 321**	**771 854**
Asset / liability set-off for deferred tax purposes	(85 378)	(150 659)	85 378	150 659	-	-
Net Deferred tax asset / (liability)	**741 321**	**771 854**	**-**	**-**	**741 321**	**771 854**

As at 31 December 2021 the deferred tax related to temporary differences was determined based on an aggregate rate of 31%, resulting from the sum of the general IRC rate (21%), the Municipal Surcharge of 1.5% and an average rate of State Surcharge of 8.5%.

On 4th September 2019, Law No. 98/2019 was published, which amended the IRC Code on the tax treatment of credit institutions' impairments, creating rules applicable to impairment losses recorded in the tax periods beginning before 1st January 2019, not yet accepted for tax purposes. This Law established a transition period for the above mentioned tax regime, which allows taxpayers in the five tax periods beginning on or after January 1, 2019, to continue to apply the tax regime in force before publication of this law, except if they perform the exercise of opt in until the end of October of each tax period of the adaptation regime. Thus, on 31 December 2021, the Bank continued to apply Regulatory Decree nº 13/2018, of December 28, which aims to extend, for tax purposes, the tax framework resulting from Notice Noº 3/95 of Bank of Portugal.

The IRC payment declarations are subject to inspection and possible adjustment by the Tax Authorities for a period of four years or during the period in which it is possible to deduct tax losses or tax credits (up to a maximum of twelve years, depending on the year of determination). Thus, possible additional tax assessments may take place due essentially to different interpretations of tax legislation. However, Management believes that, in the context of the separate financial statements, there will be no additional charges of significant value.

In 31 December 2021 and 2020, NOVO BANCO recorded deferred tax assets associated with impairments not accepted for tax purposes for credit operations, which have already been written off, considering the expectation that these will contribute to a taxable profit in the periods taxation in which the conditions required for tax deductibility are met. As of December 31, 2021, the amounts held by the Bank referring to these realities amount to approximately Euro 37 million.

The changes occurred in the deferred tax captions are as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Balance at the beginning of the exercise	771 854	892 033
Recognised in Results for the exercise	28 292	(9 185)
Recognised in Fair value reserves	58 913	(2 544)
Conversion of Deferred taxes into Tax credits	(124 721)	(107 705)
Foreign exchange differences and other	6 983	(745)
Balance at the end of the exercise (Assets / (Liabilities))	**741 321**	**771 854**

The current and deferred taxes recognized in the income statement and in reserves, in 2021 and 2020, had the following origins:

(in thousands of Euros)

	31.12.2021		31.12.2020	
	Recognised in the income statement	Recognised in reserves	Recognised in the income statement	Recognised in reserves
Financial instruments	(27 975)	(59 271)	(11 363)	4 787
Impairment losses on loans and advances to customers	59 309	-	13 324	-
Other tangible assets	(174)	-	(174)	-
Provisions	(43 118)	-	9 401	-
Pensions	(17 349)	-	(2 004)	(2 243)
Other	1 015	-	-	-
Tax losses carried forward	-	-	-	-
Deferred taxes	**(28 292)**	**(59 271)**	**9 184**	**2 544**
Current taxes	4 249	-	(13 400)	-
Total tax recognised (income) / (expense)	**(24 043)**	**(59 271)**	**(4 216)**	**2 544**

The reconciliation of the corporate income tax rate, for the portion recognized in the income statement, may be analyzed as follows:

(in thousands of Euros)

	31.12.2021		31.12.2020	
	%	Value	%	Value
Income before tax		**201 865**		**(1 378 462)**
Tax rate of novobanco	21.0		21.0	
Income tax calculated based on the tax rate of novobanco		**42 392**		**(289 477)**
Tax-exempt dividends	(0.8)	(1 593)	0.0	(482)
Impairment on investments in subsidiaries or associated companies not subject to Participation Exemption	(20.4)	(41 203)	(2.9)	40 166
Branch Tax and Tax Withheld Abroad	1.1	2 138	(0.2)	2 902
Rate differential in the generation / reversal of temporary differences	15.7	31 650	3.4	(46 706)
Annulment of tax losses carried forward	-	-	-	-
Impairments and provisions for credit	(26.4)	(53 201)	(10.7)	147 255
Impairments and fair value adjustments of securities	(18.7)	(37 715)	(7.6)	104 665
Provisions for other risks and charges and contingencies	(7.8)	(15 830)	(1.6)	21 988
Deferred tax asset not recognized on tax loss for the year	32.3	65 183	(1.2)	15 913
Pension Fund	(5.0)	(10 044)	0.0	(324)
Extraordinary Contribution and Additional Solidarity over the Banking Sector	3.5	7 019	(0.5)	6 760
Others	(6.4)	(12 839)	0.5	(6 876)
Total tax recognized	**(11.9)**	**(24 043)**	**0.3**	**(4 216)**

Recoverability analysis of deferred tax assets

Deferred tax assets are recognized to the extent they are expected to be recovered with future taxable income. The bank has evaluated the recoverability of the deferred tax assets considering its expectations of future taxable profits until 2028. The recoverability of deferred tax assets covered by the Special Regime applicable to Deferred Tax Assets is not dependent on the generation of future taxable income.

The assessment of the recoverability of deferred tax assets is carried out annually. On December 31, 2021, the exercise was performed based on the provisional version of the Medium Term Plan ("MTP") prepared for the period 2022-2024, preliminary assessed by the General Supervisory Board in December 2021 and which, after final approval, will be referred to the European Central Bank in the end of March 2022.

In the evaluation of the expectation of future taxable income generation in Portugal for the purposes of the above recovery exercise, the following assumptions were also considered:

- In addition to the detailed estimates up to 2024, it is assumed, thereafter an increase in pre-tax results at a rate of 2.60% from 2024;
- Financial results moderate growth compensating the expected cost of debt issuing to meet MREL requirements as well as the continued development of new lines of activity and the resumption of economic activity, which is strongly affected by the current pandemic situation. The growth in economic activity should also provide a return to commission levels to values similar to previous fiscal years;
- Progressive recovery of interest rate benchmarks to positive levels;
- Operating costs reduction, based on specific cost reduction plans and the implementation of a new distribution model, reflecting the favorable effect of the decrease in the number of employees and branches and, generally, the simplification and increase in the efficiency of processes, focusing on the digital component; and
- Credit impairment charges in line with the evolution of the Bank's activity and supported by macroeconomic projections, bearing in mind, in particular, the significant effort made in the last few years in the provisioning of the loan portfolio and the progressive convergence towards gradually normalized risk costs.

The evolution of the business plan used for this exercise is strongly conditioned by the evolution of the Covid-19 pandemic situation, whose evolution is difficult to predict.

Depending on the analysis mentioned above, the amount of deferred taxes not recognized for tax losses, per year of expiry, is as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
2024-2026	313 192	468 903
2026 and forward	1 163 678	1 124 790
	1 476 870	**1 593 693**

In addition, during the financial year 2020, the Bank became aware of the Tax Authority's position with regards to adjustments resulting from the application of fair value to units in real estate investment funds and private equity funds. Such position implies that fair value adjustments to units of real estate investment funds and private equity funds do not contribute to the taxable profit in the respective year of booking. For the purpose of taxable income, such adjustments will only be accounted for at the moment of the respective realization, namely upon sale of the participation units or liquidation of the funds. The overall amount of deferred tax assets relating to these temporary differences, not recognized in the balance sheet, on December 31, 2021 amounts to 333.5 million euros.

Special Regime applicable to Deferred Tax Assets

During 2014, novobanco adhered to the Special Regime applicable to deferred tax assets, after a favourable decision of the Shareholders General Meeting.

The Special Regime applicable to Deferred Tax Assets approved by Law No. 61/2014, of 26 August, covers deferred tax assets resulting from non-deduction of expenses and negative equity changes related to impairment losses on credit and with post-employment or long-term employee benefits.

The changes to the mentioned above regime, introduced by Law No. 23/2016, of August 19, limited the temporal application of the above-mentioned negative expenses and equity variations, accounted for in the tax periods beginning on or after 1January 2016, as well as the associated deferred taxes. Thus, the deferred taxes covered by this special regime correspond only to expenses and negative equity variations calculated up to 31 December 2015.

Deferred tax assets covered by the above-mentioned regime are convertible into tax credits when the taxpayer records a negative net result in the respective tax period, or in case of liquidation by voluntary dissolution or insolvency decreed by court decision.

To convert to a tax credit (other than by liquidation or insolvency), a special reserve should be created for the amount of the respective tax credit increased by 10%. The exercise of conversion rights results in the capital increase of the taxable person by incorporation of the special reserve and issuance of new common shares. This special reserve may not be distributed.

Following the determination of a negative net income for the years between 2016 and 2020, the deferred tax assets converted or estimated to be converted by reference to the deferred tax assets eligible at the balance sheet date are as follows:

(in thousands of Euros)

	2020	2019	2018	2017	2016
Tax credit	124 721	110 922	161 974	127 575	99 474

As a result of Law No. 61/2014, the amount of deferred tax assets to be converted into a tax credit and the constitution of the special reserve shall be subject to certification by a statutory auditor, as well as to confirmation by the Tax and Customs Authority, within the scope of the review procedures for the assessment of the taxable income for the relevant tax periods.

NOTE 28 – OTHER ASSETS

As at 31 December 2021 and 2020, the caption Other assets is analyzed as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Collateral deposits placed	525 229	806 215
Derivative products	*399 631*	*655 952*
Collateral CLEARNET and VISA	*33 092*	*33 092*
Collateral deposits relating to reinsurance operations	*92 457*	*117 127*
Other collateral deposits	*49*	*45*
Recoverable government subsidies on mortgage loans	11 961	6 527
Public sector	934 717	683 882
Contingent Capital Agreement	209 220	598 312
Other debtors	591 267	553 668
Income receivable	132 929	61 212
Deferred costs	47 166	51 569
Precious metals, numismatics, medal collection and other liquid assets	9 989	9 677
Real estate properties [a)]	357 644	500 917
Equipment [a)]	3 189	3 488
Stock exchange transactions pending settlement	70 918	60 917
Other assets	22 048	54 689
	2 916 277	**3 391 073**
Impairment losses		
Real estate properties [a)]	(192 413)	(267 438)
Equipment [a)]	(2 180)	(2 285)
Other debtors - Shareholder loans, supplementary capital contributions	(107 724)	(109 538)
Other	(58 108)	(55 802)
	(360 425)	**(435 063)**
	2 555 852	**2 956 010**

a) Real estate properties and equipment received in settlement of loans and discontinued

The caption Collateral deposits placed includes, amongst others, deposits made by the Bank as collateral in order to celebrate certain derivative contracts on organized markets (margin accounts) and on over the counter markets (Credit Support Annex – CSA). The CSAs take the form of collateral agreements established between two parties negotiating Over-the-Counter derivatives with each other, with the main objective of providing protection against credit risk, defining for that purpose rules regarding collateral. Derivative transactions are regulated by the International Swaps and Derivatives Association (ISDA) and have minimum risk margin that may change according to the ratings of the parties.

As of 31 December 2021, the caption Other debtors includes, amongst others:

- Euro 111.6 million of shareholder loans and supplementary capital contributions resulting from the assignment of loans and advances which are entirely provisioned (31 December 2020: Euro 111.6 million, entirely provisioned);
- Euro 60,5 million receivable relation to the sale operation of non-performing loans (Project NATA II) (31 December 2020: Euro 67.0 million);
- Euro 1,1 million of receivables related to the property sale operation carried out in 2019 (called "Project Sertorius") (31 December 2020: Euro 21.8 million);
- Euro 4,2 million receivable in relation to the sale operation of non-performing loans in 2020 (denominated "Project Carter"). (December 31, 2020: Euro 27,4 million) (see Note 22);
- Euro 29.7 million of amounts receivable related to the transaction of sale of non-productive credits carried out in 2021 (denominated "Wilkinson Project") (see Note 22);
- Euro 50.0 million of receivables related to the sale of non-performing loans in 2021 (the "Orion Project") (see Note 22).

As at 31 December 2021, the caption Deferred costs includes the amount of Euro 36,855 thousand (31 December 2020: Euro 40,800 thousand) related to the difference between the nominal amount of the loans and advances granted to bank employees under the Collective Labour Agreement (ACT) for the banking sector and their respective fair value at grant date, calculated in accordance with IFRS 9. This amount is charged to the income statement under staff costs over the lower of the remaining period to the maturity of the loan granted and the estimated remaining years of service life of the employee.

The securities transactions to be settled reflect the transactions with securities, recorded on the trade date, which were pending settlement, in accordance with the accounting policy described in Note 6.10.

The captions of Real estate properties and Equipment relate to foreclosed assets through the recovery of loans and advances and to discontinued facilities, for which the Bank has the objective of immediate sale.

The bank implemented a plan aimed at the immediate sale of all real estate property recorded in Other assets, continuing its efforts to meet the sales program established, of which we highlight the following (i) the existence of a web site specifically aimed at the sale of real estate properties; (ii) the development and participation in real estate events both in Portugal and abroad; (iii) the establishment of protocols with several real estate agents; and (iv) the regular sponsorship of auctions. Despite its intention to sell these assets, the bank regularly requests the Bank of Portugal's authorization, under article 114 of RGICSF, to extend the holding period for properties acquired on repayment of own credit.

In the financial year of 2021, an impairment charge of Euro 4.2 million was recorded for the properties in the portfolio (31 December 2020: Euro 41.3 million). Given the uncertainty associated with the estimated value of these assets, novobanco considers the impacts of the current context of the Covid-19 pandemic as the assets are revalued.

As described in accounting policy 6.25, the Bank evaluates at each reporting date, the recoverability of these assets and assesses for signs of impairment, with impairment losses being recognized in the income statement.

The changes occurred in impairment losses are presented as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Balance at the beginning of the exercise	**435 063**	**480 046**
Allocation for the exercise	17 543	53 588
Utilisation during the exercise	(81 568)	(64 754)
Write-back for the exercise	(13 857)	(11 427)
Foreign exchange differences and other	3 244	(22 390)
Balance at the end of the exercise	**360 425**	**435 063**

The changes occurred in the real estate properties were as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Balance at the beginning of the exercise	**500 917**	**562 532**
Additions	34 066	25 971
Sales	(123 600)	(69 901)
Other movements **(a)**	(53 739)	(17 685)
Balance at the end of the exercise	**357 644**	**500 917**

(a) Includes 50,208 thousand euros of real estate assets sold to the Group's Real Estate Funds, with an associated gain of 4.1 million euros.

As of 31 December 2021 and 2020, the detail of the real estate properties included in Other assets, by type, is as follows:

(in thousands of Euros)

	31.12.2021				
	Number of properties	Gross value	Impairment	Net book value	Fair value of assets [(b)]
Land					
Urban	73	40 333	11 372	28 961	26 497
Rural	58	150 231	109 444	40 787	43 554
	131	190 564	120 816	69 748	70 051
Buildings constructed					
Commercial	336	65 410	36 906	28 504	30 604
Residential	1 118	97 329	27 877	69 452	78 833
Others	134	4 133	1 176	2 957	2 994
	1 588	166 872	65 959	100 913	112 431
Others [(a)]	-	208	5 638	(5 430)	(5 430)
	1 719	**357 644**	**192 413**	**165 231**	**177 052**

(a) the net book value in this item is negative due to the fact that costs with real estate sales are imputed

(b) Determined in accordance with accounting policy mentioned in Note 6.18

(in thousands of Euros)

	31.12.2020				
	Number of properties	Gross value	Impairment	Net book value	Fair value of assets [(b)]
Land					
Urban	257	32 033	11 451	20 582	21 613
Rural	192	189 977	142 038	47 939	48 860
	449	222 010	153 489	68 521	70 473
Buildings constructed					
Commercial	813	145 717	71 766	73 951	75 800
Residential	1 408	133 048	35 853	97 195	107 511
Others	-	-	-	-	-
	2 221	278 765	107 619	171 146	183 311
Others [(a)]	-	142	6 330	(6 188)	(6 188)
	2 670	**500 917**	**267 438**	**233 479**	**247 596**

(a) the net book value in this item is negative due to the fact that costs with real estate sales are imputed

(b) Determined in accordance with accounting policy mentioned in Note 6.18

The detail of real estate properties included in Other Assets, by ageing, is as follows:

(in thousands of Euros)

	31.12.2021				
	Up to 1 year	1 to 2.5 years	2.5 to 5 years	More than 5 years	Total net book value
Land					
Urban	15 945	92	33	12 891	28 961
Rural	14	71	14 525	26 177	40 787
	15 959	163	14 558	39 068	69 748
Buildings constructed					
Commercial	1 309	2 562	8 339	16 294	28 504
Residential	3 492	4 721	19 574	41 665	69 452
Other	6	2 509	173	269	2 957
	4 807	9 792	28 086	58 228	100 913
Others [(a)]	5	(5 435)	-	-	(5 430)
	20 771	**4 520**	**42 644**	**97 296**	**165 231**

(a) the net book value in this item is negative due to the fact that costs with real estate sales are imputed

(in thousands of Euros)

	31.12.2020				
	Up to 1 year	1 to 2.5 years	2.5 to 5 years	More than 5 years	Total net book value
Land					
Urban	76	2 110	10 565	7 831	20 582
Rural	139	2 730	15 370	29 700	47 939
	215	4 840	25 935	37 531	68 521
Buildings constructed					
Commercial	10 934	19 978	23 163	19 876	73 951
Residential	7 273	15 558	26 024	48 340	97 195
Other	-	-	-	-	-
	18 207	35 536	49 187	68 216	171 146
Others [(a)]	(6 188)	-	-	-	(6 188)
	12 234	**40 376**	**75 122**	**105 747**	**233 479**

(a) the net book value in this item is negative due to the fact that costs with real estate sales are imputed

As at 31 December 2021, the amount related to discontinued facilities included in the caption Real estate properties amounts to Euro 9,848 thousand (31 December 2020: Euro 15,917 thousand), having the bank recorded impairment losses for these assets in the total amount of Euro 4,863 thousand (31 December 2020: Euro 8,273 thousand).

NOTE 29 – NON-CURRENT ASSETS AND DISPOSAL GROUPS FOR SALE CLASSIFIED AS HELD FOR SALE AND LIABILITIES INCLUDED IN DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE

This item on 31 December 2021 and 2020, is analyzed as follows:

(in thousands of Euros)

	31.12.2021		31.12.2020	
	Assets	Liabilities	Assets	Liabilities
Assets of discontinued operations				
Banco Well Link (anterior NB Ásia)	2 039	-	1 883	-
Banco Delle Tre Venezie	-	-	8 926	-
ESEGUR	-	-	9 634	-
novobanco - Spain branch	-	-	1 725 555	2 007 770
Ijar Leasing Algerie	12 597	-	-	-
Others	50	-	2 150	-
	14 686	**-**	**1 748 148**	**2 007 770**
Impairment losses				
Banco Delle Tre Venezie	-	-	(6 626)	-
ESEGUR	-	-	(4 460)	-
novobanco - Spain branch	-	-	(166 000)	-
Ijar Leasing Algerie	(8 035)	-	-	-
Others	(50)	-	(2 150)	-
	(8 085)	**-**	**(179 236)**	**-**
	6 601	**-**	**1 568 912**	**2 007 770**

Other non-current assets held for sale include shareholdings and respective shareholder loans, which were reclassified to this caption under IFRS 5.

The impairment movement for non-current Assets for disposal classified as held for sale is as follow:

(in thousands of Euros)

	31.12.2021	31.12.2020
Balance at the beginning of the exercise	**179 236**	**8 776**
Allocation / (reversals) for the exercise	10 000	170 460
Utilizations	(164 954)	-
Exchange differences and other	(16 197)	-
Balance at the end of the exercise	**8 085**	**179 236**

As at 31 December 2021 and 2020, the results from discontinued operations is as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Results from discontinued operations		
novobanco - Spain branch	1 091	(40 623)
GNB Seguros	-	11 869
	1 091	**(28 754)**

During 2021 the associate Ijar Leasing Algérie was transferred to non-current assets held for sale as it is in the process of selling assets with a view to their disposal in the short term. The associates ESEGUR and Multipessoal were transferred from non-current assets held for sale to investments in associates and the investment in Banco Delle Tre Venezie was transferred to assets at fair value through other comprehensive income, as the sale processes are not active at financial year end.

Spanish Branch

Following the accounting policy followed by the Bank, and in accordance with IFRS5 5 - Non-current assets held for sale and discontinued operations, during 2020 the Bank transferred its activity in Spain to the caption Non-current assets and disposal groups classified as held for sale, as it is expected that its value will be recovered through a sale transaction and this is highly probable, and the respective assets are in immediate sale conditions. The determination of fair value less costs of sale, carried out by an independent external entity, took into consideration the amounts received from potential parties interested in partial sales of this activity, the cost of sale of selected credit portfolios, and the cost of discontinuing the remaining residual activity, and resulted in a need for impairment of 166.0 million euros.

On April 2, 2021, novobanco entered into an agreement to sell a number of assets and liabilities of the Spanish Branch with ABANCA CORPORACIÓN BANCARIA, S.A, which was completed on November 30, 2021 with the derecognition of the assets and liabilities sold. The assets and liabilities excluded from this transaction, of residual value, remained in the branch's balance sheet, having integrated the consolidation perimeter of novobanco, as presented below:

(in thousands of Euros)

	Sold Assets / Liabilities	Assets / Liabilities remaining in the Branch
Assets		
Cash, cash balances at Central Banks and other demand deposits	-	5 000
Financial assets at fair value through profit or loss	-	2 751
Financial assets at amortized cost	(462 796)	33 794
Deposits	(462 796)	33 794
Investments in subsidiaries, joint ventures and associates	-	604
Tax assets	-	37 910
Current tax assets	-	11 929
Deferred tax assets	-	25 981
Other assets	-	9 591
Non-current assets and disposal groups classified as held for sale	(1 294 344)	-
Total Assets	**(1 757 140)**	**89 650**
Liabilities		
Resources from Central Banks and other credit institutions	-	33 885
Provisions	-	6 611
Other liabilities	-	28 259
Liabilities included in disposal groups classified as held for sale	(1 757 140)	-
Total Liabilities	**(1 757 140)**	**68 755**
Equity		
Other reserves	-	19 804
Results attributable to shareholders of the parent company	-	1 091
Total Equity	**-**	**20 895**
Total Liabilities and Equity	**(1 757 140)**	**89 650**

The completion of this transaction had no impact on the income statement at the date of derecognition, since there was a provision recorded in the balance sheet for 176 million euros (of which 10 million euros reinforced already during 2021), which was partially used. The remaining amount of 15.2 million euros was transferred to Provisions for other contingencies related to this transaction (advisory costs, tax contingencies and other possible claims).

NOTE 30 – FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

This caption as at 31 December 2021 and 2020 is analyzed as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Deposits from Central Banks and Other credit institutions	11 497 829	10 778 468
Due to customers	26 997 858	25 778 507
Debt securities issued, subordinated debt and liabilities associated to transferred assets	1 479 066	974 996
Other financial liabilities	371 609	364 013
	40 346 362	**37 895 984**

Deposits from Central Banks and other credit institutions

The balance of Deposits from Central Banks and other credit institutions is composed, as to its nature, as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Deposits from Central Banks		
From the European System of Central Banks		
Deposits	53 126	29 030
Other funds	7 954 000	7 004 000
	8 007 126	**7 033 030**
Deposits from Other credit institutions		
Domestic		
Deposits	968 975	889 876
Other funds	24 534	4 792
	993 509	**894 668**
Foreign		
Deposits	426 711	624 873
Loans	531 973	596 534
Operations with repurchase agreements	1 529 847	1 625 724
Other resources	8 663	3 639
	2 497 194	**2 850 770**
	3 490 703	**3 745 438**
	11 497 829	**10 778 468**

As at 31 December 2021, the caption funds from the European System of Central Banks includes Euro 7 954 million covered by Bank financial assets pledged as collateral, as part of the third series of longer-term refinancing operations of the European Central Bank (TLTRO III) (31 December 2020: Euro 7 004 million). The bonus introduced by the ECB in the interest rate of these transactions, in accordance with the provisions of IAS 20, is being deducted from financing costs on a linear basis for accounting purposes, taking into account the Bank's expectation of complying with the eligibility requirements set by the ECB.

The balance of the caption Repurchase agreements operations corresponds to the sale of securities with purchasing agreement (repos), recorded in accordance with the accounting policy mentioned in Note 6.21.

The breakdown of Resources of Central Banks and other credit institutions, by residual maturity, as at 31 December 2021 and 2020, is as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Deposits from Central Banks		
Up to 3 months	53 126	29 030
From 3 months to 1 year	1 627 000	-
From 1 to 5 years	6 327 000	7 004 000
	8 007 126	**7 033 030**
Deposits from Other Credit Institutions		
Up to 3 months	1 487 742	1 420 031
From 3 months to 1 year	1 287 514	666 868
From 1 to 5 years	181 609	1 087 233
More than 5 years	533 838	571 306
	3 490 703	**3 745 438**
	11 497 829	**10 778 468**

The analysis of repurchase agreements operations, by residual maturity, is as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Foreign		
Up to 3 months	679 782	225 507
From 3 months to 1 year	850 065	350 014
From 1 to 5 years	-	1 050 203
	1 529 847	**1 625 724**

Due to customers

The balance of Deposits due to costumers is composed, as to its nature, as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Repayable on demand		
Demand deposits	12 388 794	11 475 826
Time deposits		
Time deposits	9 011 648	9 187 317
Other	180	241
	9 011 828	**9 187 558**
Savings accounts		
Retirement saving accounts	226 003	232 741
Other	5 125 652	4 673 474
	5 351 655	**4 906 215**
Other funds		
Other	245 581	208 908
	245 581	**208 908**
	26 997 858	**25 778 507**

As at 31 December 2021 and 2020, the schedule of Due to customers, by residual maturity periods, is as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Repayable on demand	**12 388 794**	**11 475 826**
Term deposits		
Up to 3 months	7 670 678	7 124 178
From 3 months to 1 year	5 607 590	5 561 554
From 1 to 5 years	1 290 725	1 576 564
More than 5 years	40 071	40 385
	14 609 064	**14 302 681**
	26 997 858	**25 778 507**

Debt Securities issued, Subordinated Debt and Financial liabilities associated to transferred assets

This caption breaks down as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Debt securities issued		
Euro Medium Term Notes (EMTN)	445 633	515 311
Bonds	573 588	-
	1 019 221	**515 311**
Subordinated debt		
Bonds	415 394	415 234
Financial liabilities associated to transferred assets		
Asset lending operations	44 451	44 451
	1 479 066	**974 996**

Under the Covered Bonds Program ("*Programa de Emissão de Obrigações Hipotecárias*"), which has a maximum amount of Euro 10,000 million, the Bank issued covered bonds which amount to Euro 5,500 million (31 December 2020: Euro 5,500 million), being these covered bonds totally repurchased by the Bank. The main characteristics of the outstanding issues as of 31 December 2021 and 2020 are as follows

(in thousands of Euros)

31.12.2021

Designation	Nominal value (in thousands of Euros)	Carrying book value (in thousands of Euros)	Issue date	Maturity date	Interest payment	Interest Rate	Market	Rating Moody's	Rating DBRS
NB 2015 SR.1	1 000 000	-	07/10/2015	07/10/2025	Quarterly	Euribor 3 Months + 0.25%	XDUB	A2	A
NB 2015 SR.2	1 000 000	-	07/10/2015	07/10/2024	Quarterly	Euribor 3 Months + 0.25%	XDUB	A2	A
NB 2015 SR.3	1 000 000	-	07/10/2015	07/10/2027	Quarterly	Euribor 3 Months + 0.25%	XDUB	A2	A
NB 2015 SR.4	700 000	-	07/10/2015	07/10/2022	Quarterly	Euribor 3 Months + 0.25%	XDUB	A2	A
NB 2015 SR.5	500 000	-	22/12/2016	22/12/2023	Quarterly	Euribor 3 Months + 0.25%	XDUB	A2	A
NB 2019 SR.6	750 000	-	10/12/2019	10/06/2023	Quarterly	Euribor 3 Months + 0.25%	XMSM	A2	A
NB 2019 SR.7	550 000	-	10/12/2019	10/12/2024	Quarterly	Euribor 3 Months + 0.25%	XMSM	A2	A
	5 500 000	**-**							

(in thousands of Euros)

31.12.2020									
Designation	Nominal value (in thousands of Euros)	Carrying book value (in thousands of Euros)	Issue date	Maturity date	Interest payment	Interest Rate	Market	Rating	
								Moody's	DBRS
NB 2015 SR.1	1 000 000	-	07/10/2015	07/10/2021	Quarterly	Euribor 3 Months + 0.25%	XDUB	A2	A
NB 2015 SR.2	1 000 000	-	07/10/2015	07/10/2024	Quarterly	Euribor 3 Months + 0.25%	XDUB	A2	A
NB 2015 SR.3	1 000 000	-	07/10/2015	07/10/2020	Quarterly	Euribor 3 Months + 0.25%	XDUB	A2	A
NB 2015 SR.4	700 000	-	07/10/2015	07/10/2022	Quarterly	Euribor 3 Months + 0.25%	XDUB	A2	A
NB 2015 SR.5	500 000	-	22/12/2016	22/12/2023	Quarterly	Euribor 3 Months + 0.25%	XDUB	A2	A
NB 2019 SR.6	750 000	-	10/12/2019	10/06/2023	Quarterly	Euribor 3 Months + 0.25%	XMSM	A2	A
NB 2019 SR.7	550 000	-	10/12/2019	10/12/2024	Quarterly	Euribor 3 Months + 0.25%	XMSM	A2	A
	5 500 000	**-**							

These covered bonds are guaranteed by a cover asset pool, comprising mortgage and other assets, segregated in the Bank's accounts as autonomous patrimony and over which the holders of the relevant covered debt securities have a special creditor privilege. The conditions of the covered debt securities issues are framed in Decree-Law No. 59/2006, and in Notices No. 5, 6, and 8/2006 and Instruction No. 13/2006 of Bank of Portugal. As at 31 December 2021, the assets that collateralize these covered debt securities amount to Euro 6,075.1 million (31 December 2020: Euro 6,104.8 million) (see Note 22).

The changes in the financial years of 2021 and 2020 in Debt securities issued, subordinated debt and financial liabilities associated to transferred assets was as follows:

(in thousands of Euros)

	Balance as at 31.12.2020	Issues	Redemptions	Net purchases	Other movements a)	Balance as at 31.12.2021
Debt securities issued						
Euro Medium Term Notes (EMTN)	515 311	-	-	(84 916)	15 238	445 633
Bonds	-	575 000	-	-	(1 412)	573 588
	515 311	575 000	-	(84 916)	13 826	1 019 221
Subordinated debt						
Bonds	415 234		-	-	160	415 394
Financial liabilities associated to transferred assets						
Asset lending operations	44 451	-	-	-	-	44 451
	974 996	**575 000**	**-**	**(84 916)**	**13 986**	**1 479 066**

a) The other movements include accrued interest on the balance sheet, corrections for hedging operations, corrections of fair value and exchange rate variations.

(in thousands of Euros)

	Balance as at 31.12.2019	Issues	Redemptions [b]	Net purchases	Other movements [a]	Balance as at 31.12.2020
Debt securities issued						
Euro Medium Term Notes (EMTN)	495 989	-	-	(570)	19 892	515 311
	495 989	-	-	(570)	19 892	515 311
Subordinated debt						
Bonds	415 069	-	-	-	165	415 234
Financial liabilities associated to transferred assets						
Asset lending operations	133 387	-	(88 251)	-	(685)	44 451
	1 044 445	**-**	**(88 251)**	**(570)**	**19 372**	**974 996**

a) The other movements include accrued interest on the balance sheet, corrections for hedging operations, corrections of fair value and exchange rate variations.
b) During the year of 2020, the Lusitano SME issue no. 3, on balance in 2019, was fully repaid (Classes D, E and S).

Liability Management Exercise (LME)

On July 30, 2021, following a voluntary tender offer (Tender Offer and Solicitation Memorandum), EMTN issued by the Luxembourg branch were redeemed, with a total nominal value of 84.3 million euros (representing 31.9% of the total nominal amount issued). This operation resulted in a loss of Euro 73,415 thousand.

The main characteristics of the debt securities issued and the subordinated debt, as at 31 December 2021 and 2020, are as follows:

(in thousands of Euros)

Entity	ISIN	Description	Currency	Issue date	Unit price (€)	Carrying Book value	Maturity	Interest rate	Market
			31.12.2021						
Bonds									
novobanco	PTNOBIOM0014	NB 3.5% 23/07/24 OBRG.	EUR	2021	100.00	303 571	2024	Fixed rate 3.5%	XDUB
novobanco	PTNOBJOM0005	NB 4.25% 09/23 OBRG.	EUR	2021	100.00	270 017 a)	2022	Euribor 3M + 4.25%	XDUB
Euro Medium Term Notes									
novobanco Luxemburgo	XS0869315241	BES Luxembourg 3.5% 02/01/43	EUR	2013	1.00	42 807	2043	Fixed rate 3.5%	XLUX
novobanco Luxemburgo	XS0877741479	BES Luxembourg 3.5% 23/01/43	EUR	2013	1.00	98 081	2043	Fixed rate 3.5%	XLUX
novobanco Luxemburgo	XS0888530911	BES Luxembourg 3.5% 19/02/2043	EUR	2013	1.00	63 952	2043	Fixed rate 3.5%	XLUX
novobanco Luxemburgo	XS0897950878	BES Luxembourg 3.5% 18/03/2043	EUR	2013	1.00	47 063	2043	Fixed rate 3.5%	XLUX
novobanco Luxemburgo	XS0972653132	BES Luxembourg ZC	EUR	2013	1.00	33 649	2048	Zero Coupon	XLUX
novobanco Luxemburgo	XS1031115014	Banco Esp San Lux ZC 12/02/49	EUR	2014	1.00	40 947	2049	Zero Coupon	XLUX
novobanco Luxemburgo	XS1034421419	Banco Esp San Lux ZC 19/02/49	EUR	2014	1.00	11 375	2049	Zero Coupon	XLUX
novobanco Luxemburgo	XS1038896426	Banco Esp San Lux ZC 27/02/51	EUR	2014	1.00	15 602	2051	Zero Coupon	XLUX
novobanco Luxemburgo	XS1042343308	BES Luxembourg ZC 06/03/2051	EUR	2014	1.00	10 974	2051	Zero Coupon	XLUX
novobanco Luxemburgo	XS1053939978	BES Luxembourg ZC 03/04/48	EUR	2014	1.00	37 479	2048	Zero Coupon	XLUX
novobanco Luxemburgo	XS1055501974	BES Luxembourg ZC 09/04/52	EUR	2014	1.00	36 512	2052	Zero Coupon	XLUX
novobanco Luxemburgo	XS1058257905	BES Luxembourg ZC 16/04/46	EUR	2014	1.00	7 192	2046	Zero Coupon	XLUX
Subordinated debt									
NOVO BANCO	PTNOBFOM0017	NB 06/07/2028	EUR	2018	100.00	415 394	2023 a)	8.50%	XDUB
						1 434 615			

a) Date of the next call option

(in thousands of Euros)

Entity	ISIN	Description	Currency	Issue date	Unit price (€)	Carrying Book value	Maturity	Interest rate	Market
			31.12.2020						
Euro Medium Term Notes									
NB (Luxembourg Branch)	XS0869315241	BES Luxembourg 3.5% 02/01/43	EUR	2013	1.00	42 287	2043	Fixed rate 3.5%	XLUX
NB (Luxembourg Branch)	XS0877741479	BES Luxembourg 3.5% 23/01/43	EUR	2013	1.00	97 153	2043	Fixed rate 3.5%	XLUX
NB (Luxembourg Branch)	XS0888530911	BES Luxembourg 3.5% 19/02/2043	EUR	2013	1.00	63 183	2043	Fixed rate 3.5%	XLUX
NB (Luxembourg Branch)	XS0897950878	BES Luxembourg 3.5% 18/03/2043	EUR	2013	1.00	46 521	2043	Fixed rate 3.5%	XLUX
NB (Luxembourg Branch)	XS0972653132	BES Luxembourg ZC	EUR	2013	1.00	36 398	2048	Zero Coupon	XLUX
NB (Luxembourg Branch)	XS1031115014	Banco Esp San Lux ZC 12/02/49	EUR	2014	1.00	45 717	2049	Zero Coupon	XLUX
NB (Luxembourg Branch)	XS1034421419	Banco Esp San Lux ZC 19/02/49	EUR	2014	1.00	40 220	2049	Zero Coupon	XLUX
NB (Luxembourg Branch)	XS1038896426	Banco Esp San Lux ZC 27/02/51	EUR	2014	1.00	34 848	2051	Zero Coupon	XLUX
NB (Luxembourg Branch)	XS1042343308	BES Luxembourg ZC 06/03/2051	EUR	2014	1.00	15 212	2051	Zero Coupon	XLUX
NB (Luxembourg Branch)	XS1053939978	BES Luxembourg ZC 03/04/48	EUR	2014	1.00	43 649	2048	Zero Coupon	XLUX
NB (Luxembourg Branch)	XS1055501974	BES Luxembourg ZC 09/04/52	EUR	2014	1.00	38 646	2052	Zero Coupon	XLUX
NB (Luxembourg Branch)	XS1058257905	BES Luxembourg ZC 16/04/46	EUR	2014	1.00	11 477	2046	Zero Coupon	XLUX
Subordinated debt									
NOVO BANCO	PTNOBFOM0017	NB 06/07/2028	EUR	2018	100.00	415 234	2023 a)	8.50%	XDUB
						930 545			

a) Date of the next call option

The Bank did not present capital or interest defaults on its debt issued in the financial years of 2021 and 2020.

The residual duration of debt securities issued and subordinated liabilities as at 31 December 2021 and 2020 is as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Debt securities issued		
From 3 months to 1 year	270 017	-
From 1 to 5 years	303 571	-
More than 5 years	445 633	515 311
	1 019 221	**515 311**
Subordinated debt		
From 1 to 5 years	415 394	415 234
	415 394	**415 234**
Financial liabilities associated to transferred assets		
Undertimined maturity	44 451	44 451
	44 451	**44 451**
	1 479 066	**974 996**

The non-derecognized securitization operations mentioned above implied the recording of financial liabilities associated with transferred assets, which are detailed as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
FLITPTREL [1]	44 451	44 451
	44 451	**44 451**

(1) asset transfer operation, with the Bank in the securities portfolio vehicle equity instruments

NOTE 31 – PROVISIONS

As at 31 December 2021 and 2020, the caption Provisions presents the following changes:

(in thousands of Euros)

	Provision for restructuring	Provision for guarantees and commitments	Commercial Offers	Other Provisions	Total
Balance as at 31 December 2019	**24 044**	**97 103**	**41 334**	**209 263**	**371 744**
Charges / (Write-backs)	123 915	21 595	(629)	42 958	187 839
Utilizations	(42 188)	(2 188)	(29 506)	(14 569)	(88 451)
Exchange differences and others [(a)]	(8 798)	(15 026)	-	(8 736)	(32 560)
Balance as at 31 December 2020	**96 973**	**101 484**	**11 199**	**228 916**	**438 572**
Charges / (Write-backs)	10 070	(9 900)	-	111 600	111 770
Utilizations	(60 358)	-	(10 205)	(26 083)	(96 646)
Exchange differences and others	1	191	-	24 282	24 474
Balance as at 31 December 2021	**46 686**	**91 775**	**994**	**338 715**	**478 170**

(a) Includes Euro 8,798 thousand of restructuring provisions and Euro 14,420 thousand of provisions for guarantees provided by the Spanish Branch transferred to discontinued operations

In order to meet the financial needs of its customers, the Bank assumes several irrevocable commitments and contingent liabilities, consisting of financial guarantees, letters of credit and other credit commitments, which may require the payment by the Bank, on behalf of its customers, in the event of specific, contractually prescribed events. Although these commitments are not recorded on the balance sheet, they carry credit risk and, therefore, are part of the Bank's overall risk exposure.

The changes in the caption provisions for guarantees, are detailed as follows:

(in thousands of Euros)

	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2019	**3 575**	**14 061**	**76 387**	**94 023**
Increases due to changes in credit risk	830	20 441	23 301	44 572
Decreases due to changes in credit risk	(698)	(12 790)	(15 991)	(29 479)
Utilized	-	-	(2 188)	(2 188)
Other moviments [(a)]	(2 393)	2 293	(14 923)	(15 023)
Balance as at 31 December 2020	**1 314**	**24 005**	**66 586**	**91 905**
Increases due to changes in credit risk	596	3 006	14 833	18 435
Decreases due to changes in credit risk	(593)	(17 826)	(12 772)	(31 191)
Other movements	128	(2 355)	2 417	190
Balance as at 31 December 2021	**1 445**	**6 830**	**71 064**	**79 339**

(a) Includes Euro 14,420 thousand of provisions for guarantees provided by the Spanish Branch transferred to discontinued operations (Euro 2,360 thousand on stage 1 and Euros 12,060 thousand on stage 3).

The changes in the caption provisions for commitments are detailed as follows:

(in thousands of Euros)

	Stage 1	Stage 2	Stage 3	Total
Balance as at 31 December 2019	**1 935**	**1 145**	**-**	**3 080**
Increases due to changes in credit risk	6 325	5 488	-	11 813
Decreases due to changes in credit risk	(3 708)	(1 570)	(33)	(5 311)
Other movements	1 071	(1 107)	33	(3)
Balance as at 31 December 2020	**5 623**	**3 956**	**-**	**9 579**
Increases due to changes in credit risk	1 876	6 857	1 897	10 630
Decreases due to changes in credit risk	(1 780)	(5 961)	(33)	(7 774)
Other movements	636	(723)	88	1
Balance as at 31 December 2021	**6 355**	**4 129**	**1 952**	**12 436**

The restructuring provisions were set up within the scope of the commitments assumed before the European Commission arising from the Bank's sale and restructuring process. During the financial year of 2020, a provision of Euro 127.4 million was set up, and there was also a reversal of the provisions set up in 2016 and 2017 in the amount of Euro 3.4 million. During the 2021 fiscal year, a net charge of Euro 10.1 million was made and Euro 60.4 million were utilized, so that as at 31 December 2021 the amount of restructuring provisions on the balance sheet is Euro 46.7 million.

Other provisions amounting to Euro 338.7 million (31 December 2020: Euro 228.9 million), are intended to cover certain identified contingencies related to the Bank's activities, the most relevant being:

- Contingencies associated with ongoing tax processes. To cover for these contingencies, the Bank maintains provisions of Euro 21.9 million (31 December 2020: Euro 20.4 million);
- Contingencies associated with legal proceedings amounting to Euro 4.2 million (31 December 2020: Euro 6.6 million);

- Contingencies associated with sales processes in the amount of Euro 39.3 million (31 December 2020: Euro 41.1 million);
- Contingencies related to the undivided part of the Executive Committee's pension plan, in the amount of Euro 19.2 million (31 December 2020: Euro 19.2 million), transferred from the liability items net of the value of the assets of the Pension Fund (see Note 15);
- The remaining amount, of Euro 254.1 million (31 December 2020: Euro 141.6 million), is intended to cover losses arising from the Bank's normal activity, such as fraud, theft and robbery and lawsuits ongoing lawsuits for contingencies related to asset sale processes, among others.

The increase occurred in 2021 results from the State Budget Law for 2021 ("LOE 21"), which amended the rules of the Property Transfer Tax Code ("IMT") and the Municipal Property Tax ("IMI"), with the extension of the scope of the aggravated rate of IMI and IMT, and loss of exemptions, to real estate owned by taxpayers that are controlled, directly or indirectly, by an entity that is subject to a more favorable tax regime, included in the list approved by the Minister of Finance. At this date, the extent of the application of these new rules in terms of subjection to novobanco is pending clarification, according to a binding information request made to the Tax Authority.

As at 31 December 2021, based on the opinions obtained from legal and tax experts, and as a result of internal evaluation, it is not considered possible, with complete assurance, to remove the doubt as to the application of the new rules referred to above, although it is admitted that there may be other interpretations since these are new rules, not yet applied, and therefore subject to interpretation. As of this date, the calculation of the application of the increased IMI rates to all the properties directly and indirectly owned by novobanco amounts to approximately 115.8 million euros for 2021, and there is no expectation as to the date on which clarification will be obtained from the Tax Authority or other similar entity that will determine the existence or not of an effective increase in liabilities for Novobanco. Thus, in December 2021 a provision was set up for this contingency with a more probable risk than not of an outflow of resources incorporating economic benefits, in the above-mentioned amount of 115.8 million euros, which is included in Other provisions.

NOTE 32 – OTHER LIABILITIES

As at 31 December 2021 and 2020, the caption Other liabilities is analyzed as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Public sector	36 290	32 532
Creditors for supply of goods	98 983	65 586
Other creditors	92 499	62 119
Career bonuses (see Note 15)	7 335	7 465
Retirement pensions and health-care benefits (see Note 15)	22 562	24 692
Other accrued expenses	69 069	67 642
Deferred income	888	955
Foreign exchange transactions to be settled	14	-
Other transactions pending settlement	35 196	53 620
	362 836	**314 611**

As at 31 December 2021, the caption Creditors for supply of goods includes Euro 79,998 thousand related to creditors of assets for right of use (31 December 2020: Euro 47,973 thousand), whose maturity dates are present the following detail:

(in thousands of Euros)

	31.12.2021	31.12.2020
Up to 3 months	233	78
From 3 months to one year	1 177	438
From one to five years	18 429	26 118
More than five years	60 159	21 339
	79 998	**47 973**

NOTE 33 – SHARE CAPITAL

Ordinary Shares

As at 31 December 2021, the Bank's share capital of Euro 6,054,907,314 is represented by 9,954,907,311 registered shares with no par value and is fully subscribed and paid up by the following shareholders (31 December 2020: share capital of Euro 5,900,000,000 represented by 9,799,999,997 registered shares):

	% Share Capital	
	31.12.2021	31.12.2020
Nani Holdings, SGPS, SA [(1)]	73,83%	75,00%
Fundo de Resolução [(2)]	24,61%	25,00%
Direcção-Geral do Tesouro e Finanças	1,56%	-
	100,00%	**100,00%**

[(1)] as a result of the agreements celebrated between Fundo de Resolução and the shareholder Lone Star in the context of the sale of 75% of the share capital of novobanco, only Fundo de Resolução will see its participation diluted with the conversion of the conversion rights, pending the delivery of the shares by Fundo de Resolução to Nani Holdings on December 31, 2021. When such delivery occurs, Nani Holdings' shareholding percentage will increase to 75.00% and Fundo de Resolução to 23.44%. Nani Holdings' economic interest in the new bank remains unchanged at 75%.

[(2)] In view of the commitments assumed by the Portuguese Republic before the European Commisson, Fundo de Resolução is inhibited from exercising its voting rights.

In December 2021, a capital increase of Euro 154,907 thousand was carried out through the conversion of the conversion rights (resulting from the Special Regime Applicable to Deferred Tax Assets) for the year 2015, which gave the State a 1.56% stake in the novobanco, and which resulted in the issuance of 154,907,314 new ordinary shares (see Note 34).

In the financial year 2017 and following the acquisition of 75% of the share capital of novobanco by Lone Star, two capital increases in the amounts of Euro 750 million and Euro 250 million, in October and December, respectively, were realised.

As mentioned in Note 30, novobanco adhered to the Special Regime applicable to Deferred Tax Assets (DTA) approved by Law No. 61/2014, of 26 August. Said regime applies to deferred tax assets related to the non-deduction, for corporate income tax purposes, of costs and negative equity changes recorded up to 31 December 2015 for impairment losses on loans and advances to customers and with employee post-employment or long-term benefits. Said regime foresees that those assets can be converted into tax credits when the taxable entity reports an annual net loss.

The conversion of the eligible deferred tax assets into tax credits was made according to the proportion of the amount of said net loss to total equity at the individual company level. A special reserve was established with an amount identical to the tax credit approved, increased by 10%. This special reserve was established using the originating reserve and is to be incorporated in the share capital.

The conversion rights are securities that entitle the State to require novobanco to increase its share capital by incorporating the amount of the special reserve and consequently issuing and delivering free of charge ordinary shares. It is estimated that the conversion rights to be issued and attributed to the State following the negative net results of the years between 2015 and 2020 will give it a stake of up to approximately 16.63% of the share capital of novobanco, which will only dilute, in accordance with the sale agreement, the stake of the Resolution Fund.

For the years 2016 and 2017, the Tax Authority has already validated the tax credit, and the final amount of conversion rights attributed to the State represents an additional 4.13% stake in the share capital of novobanco (5.69% for the years 2015 to 2017). This conversion will be exercised in accordance with the procedures and deadlines established in the legal regime. The issuer of these rights has agreed with the shareholders that clarification will be sought from the state regarding the procedure for the conversion of these rights. As soon as this clarification is received, the conversion of the rights for the financial years 2016 and 2017 will take place.

NOTE 34 – ACCUMULATED OTHER COMPREHENSIVE INCOME, RETAINED EARNINGS, OTHER RESERVES

As at 31 December 2021 and 2020, the accumulated other comprehensive income, retained earnings and other reserves present the following detail:

(in thousands of Euros)

	31.12.2021	31.12.2020
Other accumulated comprehensive income	**(968 987)**	**(749 259)**
Retained earnings	**(8 576 860)**	**(7 202 828)**
Other reserves	**6 064 434**	**6 179 422**
Originating reserve	1 848 691	1 976 173
Special reserve	701 136	728 561
Other reserves and Retained earnings	3 514 607	3 474 688
	(3 481 413)	**(1 772 665)**

Other accumulated comprehensive income

The movements in Other accumulated comprehensive income were as follows:

(in thousands of Euros)

	Other Comprehensive Income					
	Impairment Reserves	Credit Risk Reserves	Sales related Reserves	Fair value Reserves	Actuarial deviations (Net of tax)	Total
Balance as at 31 December 2019	**5 505**	**(1 669)**	**(8 432)**	**(44 041)**	**(583 396)**	**(632 033)**
Actuarial deviations	-	-	-	-	(122 199)	(122 199)
Changes in fair value, net of tax	-	-	-	12 284	-	12 284
Changes in credit risk on financial liabilities at fair value, net of tax	-	10 883	-	-	-	10 883
Impairment reserves of securities at fair value through other comprehensive income	(1 838)	-	-	-	-	(1 838)
Reserves from sales of securities at fair value through other comprehensive income	-	-	(16 356)	-	-	(16 356)
Balance as at 31 December 2020	**3 667**	**9 214**	**(24 788)**	**(31 757)**	**(705 595)**	**(749 259)**
Actuarial deviations	-	-	-	-	(75 649)	(75 649)
Changes in fair value, net of tax	-	-	-	(134 562)	-	(134 562)
Impairment reserves of securities at fair value through other comprehensive income	1	-	-	-	-	1
Reserves from sales of securities at fair value through other comprehensive income	-	-	(9 518)	-	-	(9 518)
Balance as at 31 December 2021	**3 668**	**9 214**	**(34 306)**	**(166 319)**	**(781 244)**	**(968 987)**

Fair value reserve

The fair value reserves represent the amount of the unrealised gains and losses arising from the securities portfolio classified as at a fair value through other comprehensive income, net of impairment losses. The amount of this reserve is shown net of deferred taxes.

The changes occurred in the fair value reserves, net of deferred taxes and impairment losses may be analyzed as follows:

(in thousands of Euros)

	31.12.2021			31.12.2020		
	Fair value reserves			Fair value reserves		
	Financial assets at fair value through other comprehensive income	Deferred tax reserves	Total fair value reserves	Financial assets at fair value through other comprehensive	Deferred tax reserves	Total fair value reserves
Balance at the beginning of the exercise	**70 520**	**(102 277)**	**(31 757)**	**53 179**	**(97 220)**	**(44 041)**
Changes in fair value	(191 007)	-	(191 007)	88 253	-	88 253
Foreign exchange differences	2 351	-	2 351	(4 372)	-	(4 372)
Disposals in the exercise	(5 177)	-	(5 177)	(66 540)	-	(66 540)
Deferred taxes	-	59 271	59 271	-	(5 057)	(5 057)
Balance at the end of the exercise	**(123 313)**	**(43 006)**	**(166 319)**	**70 520**	**(102 277)**	**(31 757)**

The fair value reserves are analyzed as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Amortised cost of financial assets at fair value through other comprehensive income	7 256 821	7 744 257
Market value of financial assets at fair value through other comprehensive income	7 133 508	7 813 584
Unrealised gains / (losses) recognized in fair value reserve	(123 313)	69 327
Fair value reserves for discontinuing activities	-	1 193
Deferred Taxes	(43 006)	(102 277)
Fair value reserve attributable to shareholders of the Bank	**(166 319)**	**(31 757)**

Originating reserve

The originating reserve results from the difference between the assets and liabilities transferred from BES to novobanco, on the terms defined in the resolution measure applied by Bank of Portugal to BES. The amount of the reserve includes the effects of Bank of Portugal's Resolution Measure ("Medida de Resolução") and those of the conclusions reached through the audit conducted by the independent auditor nominated by Bank of Portugal.

Special reserve

As mentioned in Note 27, the special reserve was created as a result of the adhesion of novobanco to the Special Regime applicable to Deferred Tax Assets approved by Law No. 61/2014, of 26 August, which implied the conversion of eligible deferred tax assets into tax credits and the simultaneous establishment of a special reserve.

Following the clearance of a negative net result in the years between 2015 and 2020, with reference to deferred tax assets eligible at the date of closures of those financial years, the application of that special regime applicable to deferred tax assets, novobanco recorded a special reserve, in the same amount of the tax credit calculated, increased by 10%, which has the following decomposition:

(in thousands of Euros)

	31.12.2021	31.12.2020
2016 (net loss of 2015)	14 004	168 911
2017 (net loss of 2016)	109 421	109 421
2018 (net loss of 2017)	140 332	150 044
2019 (net loss of 2018)	178 171	178 171
2020 (net loss of 2019)	122 015	122 014
2021 (net loss of 2020)	137 193	-
	701 136	**728 561**

With regard to the reserve set up in 2016 (relating to the negative net income of 2015), taking into account the legal deadlines provided for in the Special Regime, in 2021 it was decided to increase the share capital by incorporation of reserves in the amount of Euro 154,907 thousand, with the remaining amount of the reserve in the amount of Euro 14,004 thousand (relating to goodwill), intended to be incorporated into a special reserve subject to the legal reserve regime under the terms of article 295 of the Commercial Companies Code.

Other reserves and retained earnings

Following the conditions agreed in the novobanco's sale process, a Contingent Capital Agreement was created. In this context, if the capital ratios fall below a certain threshold and, cumulatively, losses are recorded in a delimited asset portfolio, the Resolution Fund makes a payment corresponding to the lower of the losses recorded and the amount necessary to restore the ratios to the defined threshold, of up to a maximum of Euro 3,890 million (see Note 35 – Contingent liabilities and commitments). The capital corresponds to a previously defined asset perimeter, with an initial net book value (June 2016) of around Euro 7.9 billion. As at 31 December 2021 these assets had a net value of Euro 1.8 billion, mainly as a result of losses recorded as well as payments and recoveries (31 December 2020: net value of Euro 2.1 billion).

Taking into consideration the losses presented by novobanco on December 31, 2020, 2019, 2018 and 2017, the conditions were met that determined the payment by the Resolution Fund of Euro 429,013 thousand, Euro 1,035,016 thousand, Euro 1,149,295 thousand and Euro 791,695 thousand in 2021, 2020, 2019 and 2018, respectively.

The amount related to the Contingent Capital Agreement recorded in 2020 as receivable by the Resolution Fund (Euro 598,312 thousand) differs from the amount paid as a result of disagreements, between novobanco and the Resolution Fund, regarding (i) the provision for discontinued operations in Spain and (ii) the valuation of participation units, leading to a limitation to the immediate access to this amount, which despite being recorded as receivables, the Bank deducted, as at 31 December 2021, to the regulatory capital calculation (Euro 165,442 thousand). novobanco considers this amount to be due under the Contingent Capital Agreement and is triggering the legal and contractual mechanisms at its disposal to ensure receipt of the same (see Note 35). Additionally, the variable remuneration of the Executive Board of Directors for 2019 and 2020 (Euro 3,857 thousand) was also deducted.

In 2021, an amount receivable by the Resolution Fund of Euro 209,220 thousand was recorded in relation to the Contingent Capital Agreement, under Other Reserves and which results, on the date of each balance sheet, from the losses incurred and the regulatory ratios in force at the time of its determination. As a result of the above and in line with the Regulator's guidelines, on 31 December 2021, this value was also deducted from the regulatory capital calculation.

NOTA 35 – CONTINGENT LIABILITIES AND COMMITMENTS

In addition to the derivative financial instruments, the balances relating to off-balance accounts as at 31 December 2020 are the following:

(in thousands of Euros)

	31.12.2021	31.12.2020
Contingent liabilities		
Guarantees and standby letters	2 221 575	2 815 920
Financial assets pledged as collateral	14 086 256	14 194 624
Open documentary credits	402 332	410 292
	16 743 092	**17 420 836**
Commitments		
Revocable commitments	5 305 121	6 419 991
Irrevocable commitments	544 160	629 454
	5 849 281	**7 049 445**

Guarantees and standby letters provided are banking operations that do not imply any mobilization of funds for the Bank.

As at 31 December 2021, the caption financial assets pledged as collateral includes:

- The market value of financial assets pledged as collateral to the European Central Bank in the scope of a liquidity facility, in the amount of Euro 13.1 billion (31 December 2020: Euro 13.1 billion);
- Securities pledged as collateral to the Portuguese Securities and Exchange Commission ("Comissão do Mercado de Valores Mobiliários" (CMVM)) in the scope of the Investors Indemnity System ("Sistema de Indemnização aos Investidores"), in the amount of Euro 7.9 million (31 December 2020: Euro 8.1 million);
- Securities pledged as collateral to the Deposits' Guarantee Fund ("Fundo de Garantia de Depósitos"), in the amount of Euro 66.1 million (31 December 2020: Euro 69.5 million);
- Securities pledged as collateral to the European Investment Bank, in the amount of Euro 651.4 million (31 December 2020: Euro 769.7 million);
- Securities delivered as collateral in connection with derivatives trading with a central counterparty in the amount of Euro 100.5 million (31 December 2020: Euro 107.0 million);
- Deposits delivered as collateral in connection with derivatives trading with a central counterparty in the amount of Euro 100.0 million (31 December 2020: Euro 100.0 million).

The above-mentioned financial assets pledged as collateral are recorded in the various asset categories of the Bank's balance sheet and may be executed in the event the Bank does not fulfil its obligations under the terms and conditions of the contracts celebrated. The increase in the value of securities pledged as collateral to the European Investment Bank is related to the reinforcement of the collateral due to changes in the minimum required amounts.

Documentary credits are irrevocable commitments made by the Bank, on behalf of its customers, to pay or order to pay a certain amount to a supplier of goods or services, within a determined period, upon the presentation of documentation of the expedition of the goods or rendering of the services. The condition of "irrevocable" derives from the fact that they may not be cancelled neither changed without the agreement of all involved parties.

Revocable and irrevocable commitments represent contractual agreements to extend credit to customers of the Bank (e.g. undrawn credit lines), which are, generally, contracted for fixed periods of time or with other expiration conditions and, usually, require the payment of a fee. Almost all credit commitments in force require that customers continue meeting certain conditions that were verified at the time the credit was contracted.

Despite the characteristics of these contingent liabilities and commitments, these operations require a previous rigorous risk assessment of the solvency of the customer and of its business, similarly to any other commercial operation. When necessary, the Bank requires the collateralisation of these transactions. Since it is expected that the majority of these operations will mature without any funds having been drawn, these amounts do not necessarily represent future cash out-flows.

Additionally, liabilities recorded in off-balance sheet items related to banking services provided are as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Deposit and custody of securities and other items	31 812 211	35 774 785
Amounts received for subsequent collection	197 907	233 938
Securitized loans under management (servicing)	2 018 237	2 118 806
Other responsibilities related with banking services	537 957	1 838 050
	34 566 312	**39 965 579**

Pursuant to the resolution measure applied to BES by resolution of Bank of Portugal of 3 August 2014 (point 1., point b), subparagraph (vii) of Annex 2), as amended by the decision of Bank of Portugal of 11 August 2014, the "excluded liabilities" of transfer to novobanco include "any obligations, guarantees, liabilities or contingencies assumed in the commercialization, financial intermediation and distribution of debt instruments issued by entities that are part of the Espírito Santo Group (...) ".

Pursuant to point and subparagraph above and subpoint (v), liabilities excluded also include "any liabilities or contingencies, namely those arising from fraud or violation of regulatory, criminal or administrative offenses or provisions".

On 29 December 2015, Bank of Portugal adopted a new deliberation for the "Clarification and retransmission of liabilities and contingencies defined as excluded liabilities in subparagraphs (v) through (vii) of paragraph (b) of No. 1 of Appendix 2 of the Deliberation of Bank of Portugal of 3 August 2014 (8 p.m.), with the wording given it by the Deliberation of Bank of Portugal of 11 August 2014 (5 p.m.)". Through this deliberation, Bank of Portugal:

i. Clarified the treatment as excluded liabilities of the contingent and unknown liabilities of BES (including litigation liabilities related to pending litigation and liabilities or contingencies arising from fraud or violation of rules or regulatory, criminal or administrative offence decisions), regardless of their nature (tax, labour, civil or other) and whether or not these are recorded in the accounts of BES, in accordance with subparagraph (v) of paragraph (b) of No. 1 of Appendix 2 of the Deliberation of 3 August; and

ii. Clarified that the following liabilities had not been transferred from BES to novobanco:

a. All the liabilities relating to Preference Shares issued by vehicle companies established by BES and sold by BES;

b. All liabilities, damages and expenses related to real estate assets that were transferred to novobanco;

c. All indemnities related to breach of contracts (purchase and sale of real estate assets and others) signed and celebrated before 8 p.m. on 3 August 2014;

d. All indemnities related to life insurance contracts, in which the insurer was BES - Companhia de Seguros de Vida, S.A.;

e. All liabilities and indemnities related to the alleged annulment of certain clauses in loan agreements in which BES was the lender;

f. All the indemnities and liabilities arising from the cancellation of operations carried out by BES whilst financial and investment service provider; and

g. Any liability that is the object of any of the processes described in Appendix I of said deliberation.

iii. To the extent that, despite the clarifications made above, it is found that there has been an effective transfer of any liabilities from BES to novobanco which, in terms of any of those paragraphs and the Deliberation of 3 August, should have remained in BES's legal sphere, said liabilities will be retransmitted from novobanco to BES, with effect as at 8 p.m. of 3 August 2014.

In the preparation of its separate and consolidated financial statements as of 31 December 2021 (as well as in the previous financial statements), novobanco incorporated the decisions resulting from the referred resolution measure regarding the transfer of the assets, liabilities, off-balance sheet items and assets under management of BES, as well as from the deliberation of 29 December 2015 of Bank of Portugal, in particular, with regards to the clarification of the non-transmission to novobanco of contingent and unknown liabilities as well as the clarifications relating to the liabilities listed in paragraph (ii) above, herein also including the lawsuits listed in said deliberation.

In addition, also by the deliberation of Bank of Portugal of 29 December 2015, it was decided that it is the responsibility of Resolution Fund to neutralize, at the Bank level, the effects of decisions that are legally binding, beyond the control of novobanco and to which it did not contribute and that, simultaneously, translate into the materialization of liabilities and contingencies which, according to the perimeter of the transfer to novobanco as defined by Bank of Portugal, should remain in BES's scope or give rise to the setting of indemnities in the scope of the implementation of court sentences annulling decisions adopted by Bank of Portugal.

Considering that the establishment of the Bank results from the application of a resolution measure to BES, which had a significant impact on the net worth of third parties, and notwithstanding the deliberations of Bank of Portugal of 29 December 2015, there are still relevant litigation risks, although mitigated, namely regarding the various disputes relating to the loan made by Oak Finance to BES and regarding the senior bond issues retransmitted to BES, as well as the risk of the non-recognition and/or non-implementation of the various decisions of Bank of Portugal by Portuguese or foreign courts (as it is the case of the courts in Spain) in disputes related to the perimeter of the assets, liabilities, off-balance sheet items and assets under management transferred to novobanco. These disputes include the two lawsuits of late January 2016, with the Supreme Court of Justice of Venezuela, Banco de Desarrollo Económico y Social de Venezuela and the Fondo de Desarrollo Nacional against BES and novobanco, relating to the sale of debt instruments issued by entities belonging to the Espírito Santo Group, in the amount of 37 million dollars and 335 million dollars, respectively, and which requests the reimbursement of the amount invested, plus interest, compensation for the value of inflation and costs (in a total estimated amount by the claimants of 96 and 871 million dollars, respectively). In accordance with resolution measure, these responsibilities were not transferred to novobanco and the main actions and precautionary seizure procedures are still pending before the Supreme Court of Venezuela.

In the preparation of the separate and consolidated financial statements of the Bank as of 31 December 2021, the Executive Board of Directors reflected the Resolution Deliberation and related decisions made by Bank of Portugal, in particular the decisions of 29 December 2015. In this context, the present financial statements, namely in what regards the provisions for contingencies arising from lawsuits, reflect the exact perimeter of the assets, liabilities, off-balance sheet elements and assets under management and liabilities transferred from BES to novobanco, as determined by Bank of Portugal and taking as reference the current legal bases and the information available at the present date.

Additionally, within the scope of the novobanco sale operation, concluded on October 18, 2017, the respective contractual documents contain specific provisions that produce effects equivalent to the resolution of the Board of Directors of Bank of Portugal, of December 29, 2015, regarding the neutralization, at the level of novobanco, of the effects of unfavourable decisions that are legally binding, although, now, with contractual origin, thus maintaining the framework of contingent responsibilities of the Resolution Fund.

Relevant disputes

For the purposes of contingent liabilities, and without prejudice to the information contained in these notes to the accounts, namely with regard to the conformity of the policy of setting up provisions with the resolution measure and subsequent decisions of Bank of Portugal (and criteria for the allocation of responsibilities and contingencies arising therefrom), it is also necessary to identify the following disputes whose effects or impacts on the financial statements of novobanco GROUP are, at the present date, insusceptible to determine or quantify:

i. Legal action brought by Partran, SGPS, S.A., Massa Insolvente by Espírito Santo Financial Group, S.A. and Massa Insolvente by Espírito Santo Financial (Portugal), S.A. against novobanco and Calm Eagle Holdings, S.A.R.L. through which it is intended the declaration of nullity of the pledge constituted on the shares of Companhia de Seguros Tranquilidade, S.A. and, alternatively, the annulment of the pledge or the declaration of its ineffectiveness;

ii. Lawsuit filed by novobanco to challenge the resolution in favour of the insolvent estate of the acts of incorporation and subsequent execution of the pledge on the shares of Companhia de Seguros Tranquilidade, SA, declared by the insolvency administrator of Partran, SGPS, SA, considering that there are no grounds for the resolution of the aforementioned acts, as well as for the return of the amounts received as a price (Euro 25 million corresponding to the initial price and the respective positive adjustments) for the sale of the shares of Companhia de Seguros Tranquilidade, SA. novobanco has judicially challenged the resolution act, running the process attached to the insolvency process of Partran, SGPS, SA;

iii. Lawsuits brought after the execution of the contract for the purchase and sale of NOVO BANCO's share capital, signed between the Resolution Fund and Lone Star on March 31, 2017, related to the conditions of the sale, namely the lawsuit administrative action brought by Banco Comercial Português, SA against the Resolution Fund, of which novobanco is not a party and, under which, according to the public disclosure of privileged information made by BCP on the CMVM website on September 1, 2017, the legal assessment of the contingent capitalization obligation assumed by the Resolution Fund within the scope of the CCA is requested;

Resolution Fund

Resolution Fund is a public legal entity with administrative and financial autonomy, created by Decree-Law No. 31-A/2012, of 10 February, which is governed by the RGICSF and by its internal regulation, having as its mission to provide financial support for the resolution measures implemented by Bank of Portugal, whilst national resolution authority, and to carry out all the other functions conferred by law in the scope of the execution of such measures.

The Bank, as with the generality of the financial institutions operating in Portugal, is one of the institutions participating in Resolution Fund, making contributions that result from the application of a rate defined annually by Bank of Portugal, based, essentially, on the amount of its liabilities. As of 31 December 2021 the periodic contribution made by the Bank amounted to Euro 14,854 thousand (31 December 2020: Euro 12,528 thousand).

Within the scope of its responsibility as a supervisory and resolution authority, Bank of Portugal, on August 3, 2014, decided to apply a resolution measure to BES, pursuant to paragraph 5 of article 145-G of the General Regime of Institutions Credit and Financial Companies (RGICSF), which consisted of transferring most of its activity to novobanco, created especially for this purpose, with the capitalization being ensured by the Resolution Fund.

For the realization of novobanco's share capital, the Resolution Fund made available Euro 4,900 million, of which Euro 365 million corresponded to its own financial resources. A loan from a banking syndicate was also granted to the Resolution Fund, in the amount of Euro 635 million, with the participation of each credit institution being weighted according to several factors, including the respective size. The remaining amount (Euro 3,900 million) originated from a loan granted by the Portuguese State.

In December 2015, national authorities decided to sell most of the assets and liabilities associated with the activity of Banif - Banco Internacional do Funchal, SA (BANIF) to Banco Santander Totta, S.A. (Santander Totta), for Euro 150 million, also in the scope of the application of a resolution measure. In the context of this resolution measure, the assets of Banif identified as problematic were transferred to an asset management vehicle, created for the purpose – Oitante, S.A.. This operation involved public support estimated at Euro 2,255 million, which aimed to cover future contingencies, financed at Euro 489 million by the Resolution Fund and Euro 1,766 million directly by the Portuguese State.

The situation of serious financial imbalance in which BES was in 2014 and BANIF in 2015, which justified the application of resolution measures, created uncertainties related to the risk of litigation involving the Resolution Fund, which is significant, as well as with the risk of an eventual insufficiency of resources to ensure the fulfilment of the liabilities, in particular the short-term repayment of the borrowings.

It was in this context that, in the second half of 2016, the Portuguese Government reached an agreement with the European Commission to change the terms of the financing granted by the Portuguese State and by the banks participating in Resolution Fund in order to preserve its financial stability, through the promotion of conditions that endow predictability and stability of the contributory efforts to Resolution Fund. To this end, an addendum to the financing agreements with Resolution Fund was formalised, which introduced a number of changes to the repayment schedule, remuneration rates and other terms and conditions associated with said loans such that these are adjusted to Resolution Fund's ability to fully meet its obligations based on its regular revenues, that is, without the need to charge the banks participating in Resolution Fund for special contributions or any other extraordinary contribution.

According to the statement of the Resolution Fund of March 21, 2017, issued following an earlier statement of September 28, 2016 and the statement of the Ministry of Finance issued on the same date, the revision of the conditions of financing granted by the State Portuguese and participating banks aimed to ensure the sustainability and financial balance of the Resolution Fund, based on a stable, predictable and affordable charge for the banking sector. Based on this review, the Resolution Fund assumed that the full payment of its liabilities is ensured, as well as the respective remuneration, without the need for recourse to special contributions or any other type of extraordinary contributions by the banking sector.

On March 31, 2017, Bank of Portugal announced that it had selected the Lone Star Fund for the purchase of novobanco, which was completed on October 18, 2017, through the injection, by the new shareholder, of Euro 750 million, which was followed by a new a capital contribution of Euro 250 million, made on December 21, 2017. The Lone Star Fund now holds 75% of NOVO BANCO's share capital and the Resolution Fund the remaining 25%. Additionally, the approved conditions include:

- A contingent capitalization mechanism, under which the Resolution Fund may be called upon to make payments in the event of certain cumulative conditions materializing, related to: (i) the performance of a restricted set of assets of novobanco and (ii) the evolution of the Bank's capitalization levels. Any payments to be made under this contingent mechanism are subject to an absolute ceiling of EUR 3,890 million;
- An indemnity mechanism to novobanco, if certain conditions are met, it will be sentenced to pay any liability, by a final judicial decision that does not recognize or is contrary to the resolution measure applied by Bank of Portugal, or to the perimeter novobanco's assets and liabilities.

Notwithstanding the possibility under the applicable legislation for the collection of special contributions, in light of the renegotiation of the conditions of the loans granted to Resolution Fund by the Portuguese State and by a syndicate of banks, and of the public press releases made by the Resolution Fund and the Office of the Finance Minister stating that this possibility is not to be used, the present financial statements reflect the expectation of the Board of Directors that the Bank will not be required to make special contributions or any other type of extraordinary contributions to finance the resolution measures applied to BES and BANIF, as well as the Contingent Capital Agreement and the Compensation Mechanism referred to in the previous paragraphs.

Any changes in this regard and the application of these mechanisms may have relevant implications in the Bank's financial statements.

NOTA 36 – RELATED PARTIES BALANCES AND TRANSACTIONS

The group of entities considered to be related parties by novobanco in accordance with the IAS 24 definitions, are (i) key management personnel (members of the Executive Board of Directors and members of the General Supervisory Board of novobanco); (ii) people or entities with a family, legal or business relationship with key management personnel; (iii) people or entities with a family, legal or business relationship with shareholders; (iv) shareholders holding direct or indirect stakes equal to or exceeding 2% of the share capital or voting rights of novobanco; (v) subsidiaries consolidated for accounting purposes under the full consolidation method; (vi) associated companies, that is, companies over which novobanco has significantly influence on the company's financial and operational polices, despite not having control; and (vii) entities under joint control of novobanco (joint ventures).

During 2021, the following transactions with Related Parties identified on 31 December 2021 (credit and other types) were carried out:

1) Credit Operations

Entities / Individuals	Category	Operation	Amount (Euro)
BEST Banco Electrónico de Serviço Total S.A.	novobanco Group	Bank guarantee	8 090 174
		Bank guarantee	41 359 876
EDENRED - Portugal S.A.	novobanco Group	Direct Debits Limits (RCE) (renewal)	410 000
		Credit Card Limits (renewal)	24 000
LOCARENT - Companhia Portuguesa Aluguer Viaturas S.A.	novobanco Group	Credit Card Limits (renewal)	10 000
		Current Account Loan Account (renewal)	2 500 000
		Trading Room Operations (RCE)	3 000 000
		Direct Debits Limits (RCE) (renewal)	4 000 000
		Leasing (renewal and reduction)	25 000 000
		Leasing (renewal)	43 250 000
		Commercial Paper (renewal)	1 000 000
		Commercial Paper (renewal)	4 500 000
LOCARENT - Companhia Portuguesa Aluguer Viaturas S.A.	novobanco Group	Commercial Paper (renewal)	23 000 000
		Commercial Paper (renewal)	50 000 000
Novobanco dos Açores	Common Management and/or Supervisory Members	Full subscription of the issue of Senior Debt Securities (non-preferred) at the novobanco dos Açores by novobanco	5 000 000
Novo Banco Group (BEST, NB Açores e NB Finance)	Common Management and/or Supervisory Members	• Interbank Limits (Trading Room Operations) • Commercial Limits	1 400 000 000
Unicre - Cartão Internacional de Crédito S.A.	novobanco Group	Current Account Loan Account	18 000 000
		Current Account Loan Account	Up to 10 000 000
		Reformulation of 3 Current Account Loans (renewal)	20 050 000

2) Services rendered and other signed contracts

Entities / Individuals	Category	Operation	Amount (Euro)
GNB Gestão de Ativos	novobanco Group	Intra Group Services Agreement	na
GNB Soc Gestora de Fundo de Pensões S.A.	novobanco Group	Real Estate Transaction	22 932 300

The Bank balances with related parties as at 31 December 2021 and 2020, as well as the respective profit and losses, can be summarized as follows:

(in thousands of Euros)

	31.12.2021					31.12.2020				
	Assets	Liabilities	Guarantees	Income	Expenses	Assets	Liabilities	Guarantees	Income	Expenses
Shareholders										
NANI HOLDINGS	-	153	-	332	-	-	153	-	332	-
FUNDO DE RESOLUÇÃO	209 220	11 040	-	-	25 894	598 312	-	-	-	12 528
Subsidiary companies										
GNB RECUPERAÇÃO DE CRÉDITO	-	-	-	-	42	-	257	-	13	1 761
GNB CONCESSÕES	83 473	39 264	-	-	-	83 473	39 339	-	-	-
GNB ACE	-	-	-	-	-	-	-	-	-	1 479
GNB GA	2 261	73 201	6	6 486	-	1 723	73 536	6	5 977	-
NOVO BANCO SERVICIOS	-	-	-			18 511	23	-	496	12
ES TECH VENTURES	46 732	70 348	-	-	-	48 738	69 809	-	-	-
BEST	1 716	605 863	37	2 250	3 112	973	577 185	37	1 892	4 368
NB AÇORES	145 649	204 898	102 503	967	1 381	139 435	159 509	102 458	960	1 873
FCR PME	-	218	-	-	-	-	1 007	-	-	-
SPE-LM6	268 623	1 909	-	287	-	286 687	2 902	-	397	-
SPE-LM7	797 831	4 586	-	985	-	869 975	5 490	-	1 068	-
FCR NB GROWTH	15 050	3 357	-	-	-	15 414	3 562	-	-	-
NB ÁFRICA	-	7 145	-	-	-	-	7 185	-	-	-
NOVO VANGUARDA	-	-	-	-	-	-	162	-	-	261
FUNGEPI	-	25 614	1 232	45	83	-	60 942	-	29	7
FUNGEPI_II	-	84 523	35	5 681	3 631	-	81 394	-	34	7
FUNGERE	-	57 841	1 182	28	4	-	41 699	-	31	4
IMOINVESTIMENTO	-	3 196	-	25	-	-	922	-	39	-
PREDILOC	-	2 668	-	-	-	-	2 649	-	-	-
IMOGESTÃO	-	38 787	-	-	3	-	36 427	-	-	6
ARRABIDA	-	2 553	-	-	1	-	3 633	-	-	1
INVESFUNDO VII	-	1 088	-	4	-	-	1 216	-	4	-
NB LOGÍSTICA	-	29 741	-	-	3	-	28 707	-	-	1
NB PATRIMÓNIO	-	60 365	-	-	4 433	-	35 911	-	-	4 447
FUNDES	-	16 796	-	-	1	-	12 625	-	-	1
AMOREIRAS	-	30 168	-	-	-	-	31 824	-	-	-
FIMES ORIENTE	18	13 948	-	-	1	18	13 753	-	-	2
NB ARRENDAMENTO	-	797	-	-	-	-	1 025	-	-	-
NB FINANCE	-	6 968	1 820	16	331	-	8 770	3 566	43	4 625
ASAS INVEST	-	-	-	-	-	-	571	-	-	-
FEBAGRI	-	913	71	-	-	-	925	-	-	-
AUTODRIL	-	63	-	-	-	-	89	-	-	-
GREENWOODS	-	3 156	-	-	-	-	1 761	-	-	-
QUINTA DA AREIA	-	7	-	-	-	-	-	-	-	-
VÁRZEA DA LAGOA	-	42	-	-	-	-	-	-	-	-
HERDADE DA BOINA	-	6	-	-	-	-	5	-	-	-
RIBAGOLFE	-	49	-	-	-	-	10	-	-	-
BENAGIL	-	101	-	-	-	-	312	-	-	-
IMOASCAY	-	-	-	-	-	-	624	-	-	-
QUINTA DA RIBEIRA	-	247	-	-	-	-	187	-	-	-
PROMOFUNDO	-	124	-	-	-	-	230	-	-	-
GREENDRAIVE	6 445	252	106	-	-	4 923	58	106	-	-
FIVE STARS	-	4 634	-	4 811	17 468	-	-	-	-	-
	1 577 018	**1 406 629**	**106 992**	**21 917**	**56 388**	**2 068 182**	**1 306 388**	**106 173**	**11 315**	**31 383**
Associated Companies										
LINEAS	-	3 123	-	2 395	-	64 933	6 505	-	2 871	-
LOCARENT	121 982	3 146	-	1 040	3 278	115 832	633	-	1 081	3 800
ESEGUR	1 894	919	915	-	-	2 955	1 650	915	-	-
UNICRE	38 193	6	-	522	-	22 597	49	-	289	-
MULTIPESSOAL	2 017	43	273	-	-	2 030	31	273	31	-
OTHERS	1	76 197	-	2 039	11	2	64 816	-	1 982	291
	164 087	**83 434**	**1 188**	**5 996**	**3 289**	**208 349**	**73 684**	**1 188**	**6 254**	**4 091**
Other related entities										
HUDSON ADVISORS PORTUGAL	-	-	-	-	4 138	-	-	-	-	4 685
NACIONAL CONTA LDA	375	18	-	-	-	295	52	-	-	-
INFRAMOURA	-	-	-	-	-	114	16	-	-	-
ESMALGLASS	-	100	2	-	-	-	107	2	-	-
MARINA VILAMOURA	-	-	-	-	-	-	1	-	-	-
Other	**375**	**118**	**2**	**-**	**4 138**	**409**	**176**	**2**	**-**	**4 685**

The amount of assets receivable from the Resolution Fund corresponds to the amount of the triggering of the Contingent Capital Agreement regarding the financial years 2021 and 2020. The liability corresponds to the amount to be delivered to the Resolution Fund arising from an addendum made in May 2021 to the Contingent Capitalization Mechanism contract.

In June 2018 a contract was entered into between NANI HOLDINGS, SGPS, S.A., LSF NANI INVESTMENTS S.à.r.l. and novobanco, to provide support services for the preparation of consolidated information and regulatory reports.

The assets on the balance sheet related to associated companies included in the table above refer mainly to loans and advances, and shareholder loans granted or debt securities acquired in the scope of the Bank's activity. The liabilities relate mainly to bank deposits taken.

The guarantees relating to associated undertakings included in the table above mainly refer to guarantees provided.

Related party transactions were carried out at arm's length, under similar terms and conditions, when compared with others carried out with unrelated parties, and when these conditions were not verified, those exceptions were substantiated in accordance with the Bank's Related Party Transactions Policy.

All the loans granted to related parties are included in the impairment model, being subject to the determination of impairment in the same manner as the commercial loans and advances granted by the Bank in the scope of its activity. All assets placed with related parties earn interest between 0% and 6,24% (the rates correspond to the rates applied according to the original currency of the asset).

The costs with remunerations and other benefits granted to Key Management Personnel of novobanco in 2021 and 2020, are as follows:

(in thousands of Euros)

	31.12.2021			31.12.2020		
	Executive Board of Directors	General and Supervisory Board	Total	Executive Board of Directors	General and Supervisory Board	Total
Short-term employment benefits	2 524	1 183	3 707	2 676	993	3 669
Post-employment benefits	2	-	2	3	-	3
Other long-term benefits	51	50	101	33	8	41
	2 577	**1 233**	**3 810**	**2 712**	**1 001**	**3 713**

In 2021 and 2020, the value of variable remuneration for the management bodies amounted to 1,600 thousand euros and 1,860 thousand euros, respectively, which relates to remuneration that does not constitute vested rights of the respective members until after the end of the restructuring period and is subject to deferral and verification of certain conditions. Additionally, in 2020, costs of 320 thousand euros were recorded as sign-on bonus resulting from the entry into office of a new executive director, and compensation for termination of office of three executive directors was recorded in the amount of 206 thousand euros.

As at 31 December 2021 and 2020, the value of loans and deposits of members of the Key Management Personnel of the novobanco was as follows:

Credit granted

(i) to members of the Executive Board of Directors and their direct relatives was Euro 317 thousand (31 December 2020: Euro 331 thousand); and (ii) members of the General and Supervisory Board and their direct relatives had no credit liabilities (31 December 2020: no exposure).

Deposits

(i) of members of the Executive Board of Directors and their direct relatives was Euro 1,080 thousand (31 December 2020: Euro 1,312 thousand); and (ii) of members of the General and Supervisory Board and their direct relatives was Euro 1,562 thousand (31 December 2020: Euro 1,293 thousand).

NOTA 37 – SECURITISATION OF ASSETS

As at 31 December 2021 e 2020, the outstanding securitization transactions made by the Bank were as follows:

(in thousands of Euros)

Issue	Start date	Original amount	Current amount 31.12.2021	Current amount 31.12.2020	Asset securitized
Lusitano Mortgages No.4 plc	September 2005	1 200 000	246 943	280 051	Mortgage loan (general regime)
Lusitano Mortgages No.5 plc	September 2006	1 400 000	373 147	417 854	Mortgage loan (general regime)
Lusitano Mortgages No.6 plc	July 2007	1 100 000	355 513	396 083	Mortgage loan (general regime)
Lusitano Mortgages No.7 plc	September 2008	1 900 000	907 327	1 003 303	Mortgage loan (general regime)

The main characteristics of these operations, as at 31 December 2021 and 2020, may be analyzed as follows:

(in thousands of Euros)

31.12.2021

Issue	Bonds issued	Initial nominal value	Current nominal value	Interest held by Group (Nominal value)	Interest held by Group (Book value)	Maturity date	Initial rating of the bonds				Current rating of the bonds			
							Fitch	Moody's	S&P	DBRS	Fitch	Moody's	S&P	DBRS
Lusitano Mortgages No.4 plc	Classe A	1 134 000	189 071	-	-	December 2048	AAA	Aaa	AAA	-	A+	Aa2	AA	-
	Classe B	22 800	12 515	-	-	December 2048	AA	Aa2	AA	-	BBB+	A2	A-	-
	Classe C	19 200	10 539	-	-	December 2048	A+	A1	A+	-	BB+	Ba1	BBB-	-
	Classe D	24 000	13 174	-	-	December 2048	BBB+	Baa1	BBB-	-	CCC	Caa1	B-	-
	Classe E	10 200	5 100	-	-	December 2048	NA	-	NA	-	-	-	-	-
Lusitano Mortgages No.5 plc	Classe A	1 323 000	277 689	-	-	December 2059	AAA	Aaa	AAA	-	A	Aa2	AA	-
	Classe B	26 600	22 729	-	-	December 2059	AA	Aa2	AA	-	BBB-	Baa2	AA	-
	Classe C	22 400	19 141	-	-	December 2059	A	A1	A	-	B	Ba3	BBB	-
	Classe D	28 000	23 926	-	-	December 2059	BBB+	Baa2	BBB	-	CC	Caa3	B	-
	Classe E	11 900	11 301	-	-	December 2059	N/A	-	N/A	-	-	-	-	-
Lusitano Mortgages No.6 plc	Classe A	943 250	189 723	157 956	152 431	March 2060	AAA	Aaa	AAA	-	AA	Aa2	A-	-
	Classe B	65 450	65 450	63 950	61 124	March 2060	AA	Aa3	AA	-	A	Aa2	A-	-
	Classe C	41 800	41 800	41 800	33 936	March 2060	A	A3	A	-	BB-	A3	A-	-
	Classe D	17 600	17 600	17 600	12 388	March 2060	BBB	Baa3	BBB	-	CCC	B3	B	-
	Classe E	31 900	31 900	31 900	8 568	March 2060	BB	-	BB	-	CC	-	D	-
	Classe F	22 000	22 000	-	-	March 2060	-	-	-	-	-	-	-	-
Lusitano Mortgages No.7 plc	Classe A	1 425 000	437 435	437 434	409 580	October 2064	-	-	AAA	AAA	-	-	AA	AAA
	Classe B	294 500	294 500	294 500	266 902	October 2064	-	-	BBB-	-	-	-	A	-
	Classe C	180 500	180 500	180 500	121 349	October 2064	-	-	-	-	-	-	-	-
	Classe D	57 000	57 000	-	-	October 2064	-	-	-	-	-	-	-	-

(in thousands of Euros)

31.12.2020

Issue	Bonds issued	Initial nominal value	Current nominal value	Interest held by Group (Nominal value)	Interest held by Group (Book value)	Maturity date	Initial rating of the bonds				Current rating of the bonds			
							Fitch	Moody's	S&P	DBRS	Fitch	Moody's	S&P	DBRS
Lusitano Mortgages No.4 plc	Classe A	1 134 000	214 891	-	-	December 2048	AAA	Aaa	AAA	-	BB	Aa3	AA	-
	Classe B	22 800	14 224	-	-	December 2048	AA	Aa2	AA	-	BB	Baa1	BB+	-
	Classe C	19 200	11 978	-	-	December 2048	A+	A1	A+	-	BB	Ba3	B+	-
	Classe D	24 000	14 973	-	-	December 2048	BBB+	Baa1	BBB-	-	CCC	Caa3	B-	-
	Classe E	10 200	5 100	-	-	December 2048	NA	-	NA	-	-	-	-	-
Lusitano Mortgages No.5 plc	Classe A	1 323 000	311 465	-	-	December 2059	AAA	Aaa	AAA	-	BB	A1	AA	-
	Classe B	26 600	25 494	-	-	December 2059	AA	Aa2	AA	-	BB	Baa3	A	-
	Classe C	22 400	21 469	-	-	December 2059	A	A1	A	-	B	B3	BBB	-
	Classe D	28 000	26 836	-	-	December 2059	BBB+	Baa2	BBB	-	CC	Ca	B	-
	Classe E	11 900	11 900	-	-	December 2059	N/A	-	N/A	-	-	-	-	-
Lusitano Mortgages No.6 plc	Classe A	943 250	235 906	188 337	180 754	March 2060	AAA	Aaa	AAA	-	A	Aa3	A-	-
	Classe B	65 450	65 450	63 950	52 775	March 2060	AA	Aa3	AA	-	BBB-	Baa1	A-	-
	Classe C	41 800	41 800	41 800	32 562	March 2060	A	A3	A	-	B	Ba3	BBB+	-
	Classe D	17 600	17 600	17 600	11 906	March 2060	BBB	Baa3	BBB	-	CCC	Caa3	CCC	-
	Classe E	31 900	31 900	31 900	8 458	March 2060	BB	-	BB	-	CC	-	D	-
	Classe F	22 000	22 000	-	-	March 2060	-	-	-	-	-	-	-	-
Lusitano Mortgages No.7 plc	Classe A	1 425 000	528 003	528 003	488 778	October 2064	-	-	AAA	AAA	-	-	AA	AAA
	Classe B	294 500	294 500	294 500	265 146	October 2064	-	-	BBB-	-	-	-	BBB	-
	Classe C	180 500	180 500	180 500	116 051	October 2064	-	-	-	-	-	-	-	-
	Classe D	57 000	57 000	-	-	October 2064	-	-	-	-	-	-	-	-

NOTA 38 – FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The governance model of the valuation of the Bank's financial instruments is defined in internal regulations, which establish the policies and procedures to be followed in the identification and valuation of financial instruments, the control procedures, and the definition of the responsibilities of the parties involved in this process.

The fair value of listed financial assets is determined based on the closing price (bid-price), the price of the last transaction made or the value of the last known price (bid). In the absence of a quotation, the Bank estimates fair value using (i) valuation methodologies, such as the use of recent transaction prices, similar and carried out under market conditions, discounted cash flow techniques and customized option valuation models in order to reflect the particularities and circumstances of the instrument and (ii) valuation assumptions based on market information.

For assets included in the fair value hierarchy 3, whose quotation is provided by a third-party using parameters that are not observable in the market, the Bank proceeds, when applicable, to a detailed analysis of the historical and liquidity performance of these assets, which may imply an additional adjustment to its fair value, as well as a result of additional internal or external valuations.

The valuation models used by type of instrument are as follows:

Money market operations and loans and advances to customers: fair value is determined by the discounted cash flows method, with future cash flow being discounted considering the currency yield curve plus the credit risk of the entity contractually liquidating that flow.

Commercial paper: its fair value is determined by discounting future cash flows considering the currency yield curve plus the credit risk of the issuer determined in the issuance program.

Debt instruments (bonds) with liquidity: the selective independent valuation methodology is used based on observations available on Bloomberg, designated as 'Best Price', where all the valuations available are requested, but only previously validated sources considered as input, with the model excluding prices due to seniority and outlier prices. In the specific case of the Portuguese sovereign debt, and due to the market making activity and the materiality of the Bank's positions, the CBBT source valuations are always considered (the CBBT is a composite of valuations prepared by Bloomberg, which considers the average of executable prices with high liquidity).

Debt instruments (bonds) with reduced liquidity: the models considered for the valuation of low liquidity bonds without observable market valuations are determined taking into account the information available on the issuer and the instrument, with the following models being considered: (i) discounted cash flows - cash flows are discounted considering the interest rate risk, credit risk of the issuer and any other risks subjacent to the instrument; or (ii) valuations made available by external counterparties, when it is impossible to determine the fair value of the instrument, with the selection always falling on reliable sources with reputed credibility in the market and impartiality in the valuation of the instruments being analyzed.

Convertible bonds: the cash flows are discounted considering the interest rate risk, the issuer's credit risk and any other risks that may be associated with the instrument, increased by the net present value (NPV) of the convertibility options embedded in the instrument.

Shares and quoted funds: for quoted market products, the quotation on the respective stock exchange is considered.

Unquoted Shares: the valuation is carried out using external valuations made of the companies in which the shareholding is held. In the event the request for an external valuation is not justified due to the immateriality of this position in the balance sheet, the position is revalued considering the book value of the entity.

Unquoted funds: the valuation considered is that provided by the fund's management company. In the event there are calls for capital after the reference date of the last available valuation, the valuation is recalculated considering the capital calls subsequent to the reference date at the amount at which these were made, until a new valuation is made available by the management company, already considering the capital calls realized. It should be noted that, although it accepts the valuations provided by the management companies, when applicable in accordance with the funds' regulations, the Bank requests the legal certification of accounts issued by independent auditors in order to obtain additional assurance about the information provided by the management company. Additionally, and for the major assets held by the real estate investment funds, and according to an annual work plan previously approved by the Executive Board of Directors, a process of challenge to their valuations is carried out, consisting of a detailed technical analysis of the main assumptions considered in the valuations. This process may lead to the need of new valuations as well as to adjustments to the fair value of those assets.

In the specific case of the Restructuring Funds ("Assessed Assets"), their assessment was carried out during the year 2020 by an independent external international entity ("Appraiser"), which engaged renowned real estate appraisal companies to determine the fair value of real estate assets, which represent a significant part of the funds' portfolio.

The fair vale estimation Assessed Assets requires a multi-step approach, taking into account the following (i) The fair value of the assets invested by each fund (the "Underlying Assets"); (ii) The nature of the participation of the respective Fund in each of the Underlying Assets; (iii) The other assets and liabilities on the Fund's balance; (iv) The nature of novobanco investment in each of the funds; and (v) Consideration of any applicable discounts or premiums. The fair value of the Underlying Assets was estimated using three valuation approaches (market, income and cost) depending, among other things, on the specific nature of each asset, its state of development, the information available and the date of the initial investment. The other assets and liabilities in the fund's balances would normally be valued using the cost approach, with potential adjustments based on the market, and the consideration of discounts and premiums, normally assessed using market data and benchmarks.

Underlying assets are mainly divided into Non-Real Estate assets and Real Estate assets (which can be subdivided into Hotels and Other Real Estate assets). For Non-Real Estate Assets, the Appraiser considered the Market approach based essentially on Market Multiples for comparable assets and considering the historical performance of each asset. For Real Estate Assets, the appraiser considered either the market approach or the income approach, depending on the state of each asset. In the case of hotels, the main value-based assumptions considered were the average room rate, the occupancy rate, the GOP margin, the EBITDA margin, the Capex needs and the discount rate. In relation to Other Real Estate Assets, the main assumptions of value were sales prices, construction costs, timeline (both to development and sale) and Discount Rates. Each of the assumptions described above considered in the valuation of real estate assets was determined from asset to asset (total of 149 major assets subdivided into a total of more than 1,000 assets), depending on the status of the asset, the asset's historical performance, location and market competitors.

With regards to information on quantitative indicators underlying the fair value measurements of the Restructuring Funds, the following is presented:

Assumption	Hotels			Real Estate under development			Real Estate			Commercial Centres			Agriculture properties		
	Min	Average	Max	Min	Average	Max	Min	Average	Max	Min	Average	Max	Min	Average	Max
Bedroom average rate (€)	51	177	497	95	145	207	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Occupancy rate %	40%	58%	78%	54%	66%	75%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
€/square meter	n.a.	n.a.	n.a.	30	3 227	6 059	173	2 024	4 610	1 007	3 460	4 560	n.a.	n.a.	n.a.
€/Ha	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	3 954	23 088	77 296
Discount rate	7.5%	8.2%	10.6%	8.1%	12.1%	20.0%	5.0%	6.0%	7.0%	9.3%	9.7%	10.6%	n.a.	n.a.	n.a.
Valuation methodology	Market approach Income approach			Market approach Income approach			Market approach Income approach			Market approach Income approach			Market approach Income approach		

Notes:

1. *All the above assumptions were calculated based on the average of the values considered by the external evaluators per property assessed*
2. *The average presented was calculated on the property-weighted average in the sum of the value of the underlying assets per category presented*
3. *Hotel - Includes hotels and aparthotels currently in operation (Hotels under development or projects are included under Real Estate under Development together with their respective property)*
4. *€/m2 consider the gross construction area*

In addition, additional assumptions considered in the fair value measurement of the financial investments held in the restructuring funds are presented below:

Type of Fund	Discount based on P/BV observable market data
Real estate and Tourism	14.5%
Real estate and Tourism/Other	13.6%
Other	10.6%

In 2021, and as had been done in 2020, the observable movement in terms of the evolution of market prices of funds, companies and assets considered comparable to the underlying assets was considered in order to obtain an objective estimate of the evolution of the fair value of these assets between December 31, 2020 and December 31, 2021.

Derivative instruments: if these are traded on organized markets, the valuations are observable in the market, otherwise these are valued using standard models and relying on observable variables in the market, namely:

- Foreign currency options: are valued through the front office system, which considers models such as Garman-Kohlhagen, Binomial, Black & Scholes, Levy or Vanna-Volga;
- Interest rate swaps and foreign currency swaps: the valuation of these instruments is done through the front office system, where the fixed leg cash flows of the instrument are discounted based on the yield curve of the respective currency, and the cash flows of the variable leg are projected considering the forward curve and discounted, also considering discount factors and forward rates based on the yield curve of the respective currency;
- Credit Default Swaps (CDS): both legs of the CDS are composed of cash flows contingent on the credit risk of the underlying asset and are therefore valued using market credit spreads;
- Futures and Options: the Bank trades these products on an organized market, but also has the possibility to trade them on the OTC market. For futures and options traded on an organized market, the valuations are observable in the market, with the valuation being received daily through the broker selected for these products. For futures and options traded on the OTC market, and depending on the type of product and the underlying asset type, discrete time (binominal) or continuous time (Black & Scholes) models may be used.

The Bank calculates the Credit Valuation Adjustment (CVA) for derivative instruments in accordance with the following methodology: (i) Portfolio basis – the calculation of the CVA corresponds to the application, to the aggregate exposure of each counterpart, of an expected loss and a recovery rate, considering the average duration period estimated for each exposure; (ii) Individual basis – the calculation of the CVA on an individual basis is based on the determination of the exposure using stochastic methods (Expected Positive Exposure) which translates into the calculation of the expected fair value exposure that each derivative is likely to assume over its remaining life. Subsequently, are applied to the exposure determined, an expected loss and a recovery rate.

The Bank chooses not to register "Debt Valuation Adjustment" (DVA), which represents the market value of own credit risk of the group of a certain negative exposure to a counterparty, reflecting a prudent perspective of application of this regulation. It should be noted that the exposure potentially subject to DVA is controlled on a monthly basis and has assumed immaterial values.

The validation of the valuation of financial instruments is performed by an independent area, which validates the models used and the prices assigned. More specifically, this area is responsible for carrying out independent verification of the prices for mark-to-market valuations, and for mark-to-model valuations, it validates the models used and any changes thereto, whenever they exist. For prices provided by external entities, the validation performed consists in confirming the use of correct prices.

The fair value of the financial assets and liabilities and non-financial assets of the Bank measured at fair value is as follows:

(in thousands of Euros)

	At Fair Value			
	Quoted market prices (Stage 1)	Valuation models based on observable market parameters (Stage 2)	Valuation models based on unobservable market parameters (Stage 3)	Total Fair Value
31 December 2021				
Financial assets held for trading	**114 465**	**263 244**	**-**	**377 709**
Securities held for trading	114 465	-	-	114 465
Bonds issued by public entities	*114 465*	*-*	*-*	*114 465*
Derivatives held for trading	-	263 244	-	263 244
Exchange rate contracts	*-*	*29 172*	*-*	*29 172*
Interest rate contracts	*-*	*225 196*	*-*	*225 196*
Other	*-*	*8 876*	*-*	*8 876*
Financial assets mandatorily at fair value through profit or loss	**187 621**	**26 309**	**2 036 378**	**2 250 308**
Bonds issued by other entities	*52 532*	*50*	*506 645*	*559 227*
Shares	*135 089*	*-*	*290 274*	*425 363*
Other variable income securities	*-*	*26 259*	*1 239 459*	*1 265 718*
Financial assets at fair value through other comprehensive income	**7 091 159**	**6 624**	**35 725**	**7 133 508**
Bonds issued by public entities	*5 685 067*	*-*	*-*	*5 685 067*
Bonds issued by other entities	*1 398 899*	*-*	*-*	*1 398 899*
Shares	*7 193*	*6 624*	*35 725*	*49 542*
Derivatives - Hedge Accounting	**-**	**20 150**	**-**	**20 150**
Interest rate contracts	*-*	*20 150*	*-*	*20 150*
Assets at fair value	**7 393 245**	**316 327**	**2 072 103**	**9 781 675**
Financial liabilities held for trading	**-**	**303 562**	**1 950**	**305 512**
Derivatives held for trading	-	303 562	1 950	305 512
Exchange rate contracts	*-*	*34 690*	*-*	*34 690*
Interest rate contracts	*-*	*265 939*	*1 950*	*267 889*
Credit default contracts	*-*	*574*	*-*	*574*
Other	*-*	*2 359*	*-*	*2 359*
Derivatives - Hedge Accounting	**-**	**44 460**	**-**	**44 460**
Loans	*-*	*44 460*	*-*	*44 460*
Liabilities at fair value	**-**	**348 022**	**1 950**	**349 972**

(in thousands of Euros)

	At Fair Value			
	Quoted market prices (Stage 1)	Valuation models based on observable market parameters (Stage 2)	Valuation models based on unobservable market parameters (Stage 3)	Total Fair Value
31 December 2020				
Financial assets held for trading	**267 016**	**388 311**	**-**	**655 327**
Securities held for trading	267 016	-	-	267 016
Bonds issued by public entities	*267 016*	-	-	*267 016*
Derivatives held for trading	-	388 311	-	388 311
Exchange rate contracts	-	*57 273*	-	*57 273*
Interest rate contracts	-	*319 662*	-	*319 662*
Other	-	*11 376*	-	*11 376*
Financial assets mandatorily at fair value through profit or loss	**212 392**	**44 694**	**2 188 519**	**2 445 605**
Bonds issued by other entities	*82 203*	*50*	*564 829*	*647 082*
Shares	*130 189*	-	*273 563*	*403 752*
Other variable income securities	-	*44 644*	*1 350 127*	*1 394 771*
Financial assets at fair value through other comprehensive income	**7 770 720**	**7 131**	**35 733**	**7 813 584**
Bonds issued by public entities	*6 406 465*	-	-	*6 406 465*
Bonds issued by other entities	*1 352 759*	-	-	*1 352 759*
Shares	*11 496*	*7 131*	*35 733*	*54 360*
Derivatives - Hedge Accounting	**-**	**13 606**	**-**	**13 606**
Interest rate contracts	-	*13 606*	-	*13 606*
Assets at fair value	**8 250 128**	**453 742**	**2 224 252**	**10 928 122**
Financial liabilities held for trading	**-**	**552 185**	**2 158**	**554 343**
Derivatives held for trading	-	552 185	2 158	554 343
Exchange rate contracts	-	*45 450*	-	*45 450*
Interest rate contracts	-	*501 419*	*2 158*	*503 577*
Credit default contracts	-	*16*	-	*16*
Other	-	*5 300*	-	*5 300*
Derivatives - Hedge Accounting	**-**	**72 543**	**-**	**72 543**
Interest rate contracts	-	*72 543*	-	*72 543*
Liabilities at fair value	**-**	**624 728**	**2 158**	**626 886**

The changes occurred in financial assets and financial liabilities valued based on non-observable market information (level 3 of the fair value hierarchy) during the financial years of 2021 and 2020, can be analyzed as follows:

(in thousands of Euros)

	31.12.2021						
	Financial assets held for trading		Financial assets mandatorily at fair value through profit or loss	Financial assets at fair value through other comprehensive income	**Total assets**	Financial liabilities held for trading	**Total liabilities**
	Derivatives held for trading	Economic hedging derivatives				Derivatives held for trading	
Balance as at 31 December 2020	**-**	**-**	**2 188 519**	**35 733**	**2 224 252**	**2 158**	**2 158**
Acquisitions	-	-	81 650	556	82 206	24 117	24 117
Attainment of maturity	-	-	(138 500)	-	(138 500)	-	-
Settlements	-	-	(122 392)	(4 246)	(126 638)	(24 117)	(24 117)
Transfers in	-	-	2 751	2 300	5 051	-	-
Changes in value	-	-	24 350	1 382	25 732	(208)	(208)
Balance as at 31 December 2021	**-**	**-**	**2 036 378**	**35 725**	**2 072 103**	**1 950**	**1 950**

(in thousands of Euros)

	31.12.2020						
	Financial assets held for trading		Financial assets mandatorily at fair value through profit or loss	Financial assets at fair value through other comprehensive income	**Total assets**	Financial liabilities held for trading	**Total liabilities**
	Derivatives held for trading	Economic hedging derivatives				Derivatives held for trading	
Balance as at 31 December 2019	**191**	**74 093**	**2 875 070**	**34 600**	**2 983 954**	**1 837**	**1 837**
Acquisitions	-	-	31 393	5 048	36 441	-	-
Attainment of maturity	-	-	(162 380)	-	(162 380)	-	-
Settlements	-	(80 489)	(1 583)	(21 317)	(103 389)	-	-
Transfers in	-	-	-	9 738	9 738	-	-
Transfers out	-	-	(35 386)	(1 250)	(36 636)	-	-
Changes in value	(191)	6 396	(518 595)	8 914	(503 476)	321	321
Balance as at 31 December 2020	**-**	**-**	**2 188 519**	**35 733**	**2 224 252**	**2 158**	**2 158**

In the years 2021 and 2020 there were no significant transfers of value between the different levels of the fair value hierarchy.

Potential gains and losses on financial instruments and investment property classified at level 3 of the fair value hierarchy are recorded in profit or loss or revaluation reserves in accordance with the respective asset accounting policy. The amounts calculated on 31 December 2021 and 2020 were as follows:

(in thousands of Euros)

	31.12.2021			31.12.2020		
	Recognised in reserves	Recognised in the income statement	Total	Recognised in reserves	Recognised in the income statement	Total
Derivatives held for trading	-	144	144	-	23 605	23 605
Risk Management Derivatives	-	(24 117)	(24 117)	-	(68 722)	(68 722)
Financial assets mandatorily at fair value through profit or loss	-	29 501	29 501	-	(514 186)	(514 186)
Financial assets at fair value through other comprehensive income	9 122	-	9 122	9 632	-	9 632
	9 122	**5 528**	**14 650**	**9 632**	**(559 303)**	**(549 671)**

The following table presents, for financial assets included in level 3 of the fair value hierarchy, the main valuation methods used and the impact of changing the main variables used in their valuation, when applicable:

(in millions of Euros)

Assets classified under level 3	31.12.2021						
	Valuation Model	Variable analysed	Carrying book value	Unfavorable scenario		Favorable scenario	
				Change	Impact	Change	Impact
Financial assets mandatorily at fair value through profit or loss			**2 036.4**		**(37.6)**		**58.7**
Obligations of other issuers			506.6				
	Discounted cash flow model	*Specific Impairment*	*2.4*	*-50%*	*(2.4)*	*+50%*	4.8
	Discounted cash flow model	*Discount rate*	*504.3*	*(-) 100 bps*	*(35.2)*	*(+) 100 bps*	*54.0*
Shares			290.3		-		-
	Valuation of the management company (adjusted)	(b)	287.5		-		-
	Others	*(a)*	*2.8*		-		-
Other variable income securities			1 239.5		-		-
	Valuation of the management company (adjusted)	*(b)*	*236.5*		-		-
	Valuation of the management company	*(c)*	*1 002.9*		-		-
Financial assets at fair value through other comprehensive income			**35.7**		**(1.7)**		**0.1**
Shares			35.7		-		-
	Discounted cash flows	*Renewable Energy Tariff*	*9.6*		*(1.7)*		*0.1*
	Other	*(a)*	*26.1*		-		-
Total			**2 072.1**		**(39.3)**		**58.8**

(a) No sensitivity analysis was carried out for these categories as these include securities of an individually immaterial value.

(b) For the sensitivity analysis carried out on the valuation of the Restructuring Funds, taking into account the valuation methodologies applied and considering that real estate assets represent more than 95% of the underlying assets of the Funds, a variation of + 10% was considered and -10% in the fair value of the main real estate assets of each Fund, which leads to an impact of + 5.8% and -5.7% in the fair value of the restructuring funds.

(c) In the specific case of participation units valued in accordance with quotations provided by the respective management company, it is not reasonable to carry out an analysis of the impact of changes of the variables subjacent to the determination of the quotation by the entity

(in millions of Euros)

Assets classified under level 3	31.12.2020 Valuation Model	Variable analysed	Carrying book value	Unfavorable scenario Change	Impact	Favorable scenario Change	Impact
Financial assets mandatorily at fair value through profit or loss			**2 188.5**		**(56.4)**		**68.9**
Obligations of other issuers			564.8				
	Discounted cash flow model	Specific Impairment	*77.9*	*-50%*	*(22.2)*	*+50%*	*12.2*
	Discounted cash flow model	Discount rate	*486.9*	*(-) 100 bps*	*(34.3)*	*(+) 100 bps*	*56.7*
Shares	Valuation of the management company (adjusted)	(b)	273.6		-		-
Other variable income securities			*1 350.1*		-		-
	Valuation of the management company (adjusted)	*(b)*	*225.3*		-		-
	Valuation of the management company	*(c)*	*1 124.9*				
Financial assets at fair value through other comprehensive income			**35.7**		**(1.7)**		**0.1**
Shares			35.7		-		-
	Discounted cash flows	*Renewable Energy Tariff*	*9.6*		*(1.7)*		*0.1*
	Other	*(a)*	*26.1*		-		-
Total			**2 224.3**		**(58.2)**		**69.0**

(a) No sensitivity analysis was carried out for these categories as these include securities of an individually immaterial value.

(b) For the sensitivity analysis carried out on the valuation of the Restructuring Funds, taking into account the valuation methodologies applied and considering that real estate assets represent more than 95% of the underlying assets of the Funds, a variation of + 10% was considered and -10% in the fair value of the main real estate assets of each Fund, which leads to an impact of + 6.15% and -5.8% in the fair value of the restructuring funds.

(c) In the specific case of participation units valued in accordance with quotations provided by the respective management company, it is not reasonable to carry out an analysis of the impact of changes of the variables subjacent to the determination of the quotation by the entity

The main parameters used, at 31 December 2021 and 2020, in the valuation models were as follows:

Interest rate curves

The short-term rates presented reflect benchmark interest rates for the money market, whilst those presented for the long-term represent the interest rate swap quotations for the respective periods:

(%)

	31.12.2021 EUR	USD	GBP	31.12.2020 EUR	USD	GBP
Overnight	-0.5740	0.0644	0.2100	-0.5780	0.0776	0.1000
1 month	-0.5830	0.1013	0.2400	-0.5540	0.1439	0.0900
3 months	-0.5720	0.2091	0.3900	-0.5450	0.2384	0.0900
6 months	-0.5460	0.3388	0.6100	-0.5260	0.2576	0.1450
9 months	-0.5235	0.4603	0.6700	-0.5125	0.2995	0.1950
1 year	-0.5010	0.5831	0.8246	-0.4990	0.3419	-0.0125
3 years	-0.1450	1.1495	1.2972	-0.5080	0.2370	0.0913
5 years	0.0160	1.3460	1.2910	-0.4575	0.4275	0.1926
7 years	0.1300	1.4530	1.2373	-0.3845	0.6478	0.2799
10 years	0.3030	1.5610	1.2095	-0.2650	0.9170	0.3966
15 years	0.4920	1.6800	1.1817	-0.0720	1.1835	0.5200
20 years	0.5480	1.7708	1.1518	0.0090	1.3033	0.5730
25 years	0.5240	1.7316	1.1264	0.0090	1.3680	0.5805
30 years	0.4790	1.7160	1.1030	-0.0250	1.3998	0.5741

Credit Spreads

The credit spreads used by the Bank in the valuation of credit derivatives are those disclosed on a daily basis by Markit, representing observations pertaining to around 85 renowned international financial entities. The evolution of the main indexes, understood as being representative of the credit spread behaviour in the market during the year, is presented as follows:

(basis points)

Index	Series	1 year	3 years	5 years	7 years	10 years
31 December 2021						
CDX USD Main	**37**	0.00	0.00	49.57	68.55	0.00
iTraxx Eur Main	**36**	10.43	26.82	47.76	66.71	87.01
iTraxx Eur Senior Financial	**36**	0.00	0.00	54.86	0.00	85.86
31 December 2020						
CDX USD Main	**35**	18.95	30.35	49.98	70.70	90.52
iTraxx Eur Main	**34**	0.00	27.66	47.95	66.24	86.37
iTraxx Eur Senior Financial	**34**	0.00	0.00	59.06	0.00	89.30

Interest rate volatility

The values presented below represent the implicit volatilities (at the money) used for the valuation of interest rate options:

(%)

	31.12.2021			31.12.2020		
	EUR	**USD**	**GBP**	**EUR**	**USD**	**GBP**
1 year	23.16	73.74	76.14	15.39	118.44	-
3 years	55.79	59.15	63.57	21.33	91.12	-
5 years	65.81	56.88	71.17	28.38	84.06	-
7 years	68.34	54.59	79.98	34.60	65.41	-
10 years	68.98	50.93	88.08	41.18	62.77	-
15 years	66.28	-	-	46.54	-	-

Foreign exchange rates and volatility

Presented below, are the foreign exchange rates (European Central Bank) at the balance sheet date and the implicit volatilities (at the money) for the main currencies used in the derivatives' valuation:

Foreign exchange rate	31.12.2021	31.12.2020	Volatility (%) 1 month	3 months	6 months	9 months	1 year
EUR/USD	1.1326	1.2271	5.15	5.38	5.55	5.57	5.58
EUR/GBP	0.8403	0.8990	5.13	5.63	6.05	6.25	6.39
EUR/CHF	1.0331	1.0802	4.33	4.63	4.90	4.98	4.95
EUR/NOK	9.9888	10.4703	9.01	9.18	9.20	9.18	9.18
EUR/PLN	4.5969	4.5597	5.43	5.60	5.79	5.85	5.83
EUR/RUB	85.3004	91.4671	7.51	8.07	8.71	9.29	9.58
USD/BRL [a]	5.5713	5.1940	15.91	16.24	16.59	17.19	17.79
USD/TRY [b]	13.4500	7.4265	77.79	60.35	49.71	45.58	41.29

[a] Calculated based on EUR / USD and EUR / BRL exchange rates.

[b] Calculated based on EUR / USD and EUR / TRY exchange rates.

Regarding foreign exchange rates, the Bank uses in its valuation models the spot rate observed in the market at the moment of the valuation.

Equity indexes

The table below presents the evolution of the main market equity indexes and their respective volatilities, used in the valuation of equity derivatives:

	Quotation			Historical volatility		Implied Volatility
	31.12.2021	31.12.2020	% Change	1 month	3 months	
DJ Euro Stoxx 50	4 298	3 553	20.99%	24.38	17.81	-
PSI 20	5 569	4 898	13.70%	13.34	14.68	-
IBEX 35	8 714	8 074	7.93%	23.88	18.20	-
FTSE 100	7 385	6 461	14.30%	16.62	12.21	11.96
DAX	15 885	13 719	15.79%	21.77	16.10	13.76
S&P 500	4 766	3 756	26.89%	18.23	13.84	12.53
BOVESPA	104 822	119 017	-11.93%	21.59	23.76	24.48

The fair value of financial assets and liabilities recorded in the balance sheet at amortised cost is analysed as follows, having been estimated based on the main methodologies and assumptions described below:

(in thousands of Euros)

	Assets / liabilities recorded at amortised cost	Fair Value			
		Quoted market prices (Stage 1)	Valuation models based on observable market parameters (Stage 2)	Valuation models based on unobservable market parameters (Stage 3)	Total fair value
31 December 2021					
Cash, cash balances at central bank and other demand deposits	5 674 461	-	5 674 461	-	5 674 461
Financial assets at amortised cost					
Debt securities	2 893 829	1 065 084	332 194	1 729 846	3 127 124
Loans and advances to credit institutions	186 089	-	186 089	-	186 089
Loans and advances to customers	21 897 382	-	-	22 263 293	22 263 293
Financial assets	**30 651 761**	**1 065 084**	**6 192 744**	**23 993 139**	**31 250 967**
Financial liabilities measured at amortised cost					
Deposits from Central Banks and other credit institutions	11 497 829	-	11 532 025	-	11 532 025
Due to customers	26 997 858	-	-	26 997 858	26 997 858
Debt securities issued, subordinated debt and liabilities associated to transferred assets	1 479 066	1 736 200	-	44 451	1 780 651
Other financial liabilities	371 609	-	-	371 609	371 609
Financial liabilities	**40 346 362**	**1 736 200**	**11 532 025**	**27 413 918**	**40 682 143**

(in thousands of Euros)

	Assets / liabilities recorded at amortised cost	Fair Value			
		Quoted market prices (Stage 1)	Valuation models based on observable market parameters (Stage 2)	Valuation models based on unobservable market parameters (Stage 3)	Total fair value
31 December 2020					
Cash, cash balances at central bank and other demand deposits	2 524 868	-	2 524 868	-	2 524 868
Financial assets at amortised cost					
Debt securities	2 873 753	839 673	378 588	1 887 104	3 105 365
Loans and advances to credit institutions	245 472	-	245 472	-	245 472
Loans and advances to customers	21 685 258	-	-	21 930 569	21 930 569
Financial assets	**27 329 351**	**839 673**	**3 148 928**	**23 817 673**	**27 806 274**
Financial liabilities measured at amortised cost					
Deposits from Central Banks and other credit institutions	10 778 468	-	10 819 077	-	10 819 077
Due to customers	25 778 507	-	-	25 778 507	25 778 507
Debt securities issued, subordinated debt and liabilities associated to transferred assets	974 996	1 143 995	-	44 451	1 188 446
Other financial liabilities	364 013	-	-	364 013	364 013
Financial liabilities	**37 895 984**	**1 143 995**	**10 819 077**	**26 186 971**	**38 150 043**

Cash and deposits with Central Banks, Deposits with banks and Loans and advances to credit institutions and Deposits from Central Banks.
Considering the short-term nature of these financial instruments, their carrying book value is a reasonable estimate of their fair value.

Securities at amortised cost
The fair value of securities recorded at fair value is estimated according to the methodologies used for the valuation of securities recorded at fair value, as described at the beginning of the current Note.

Loans and advances to customers
The fair value of loans and advances to customers is estimated based on the discounted expected future cash flows of principal and interest, assuming that the instalments are paid on the dates contractually defined. The expected future cash flows from portfolios of loans with similar credit risk characteristics, such as residential mortgage loans, are estimated collectively on a portfolio basis. The discount rates used by the Bank are the current interest rates used for loans with similar characteristics.

Deposits from credit institutions
The fair value of deposits from Central Banks and Deposits from credit institutions is estimated based on the discounted expected future cash flows of principal and interest.

Due to customers
The fair value of these financial instruments is estimated based on the discounted expected future cash flows of principal and interest. The discount rate used by the Bank is that which reflects the current interest rates applicable to deposits with similar characteristics at the balance sheet date. Given that the interest rates applicable to these instruments are renewed for periods under one year, there are no material relevant differences in their fair value.

Debt securities issued, Subordinated debt and liabilities associated to transferred assets
The fair value of these instruments is based on quoted market prices, when available. When not available, the Bank estimates their fair value by discounting their expected future cash flows of principal and interest.

Other financial liabilities
These liabilities are short-term and therefore the book value is a reasonable estimate of their fair value.

NOTA 39 – RISK MANAGEMENT

The institutional area of the NOVO BANCO, S.A.’s website (www.novobanco.pt) presents the information directed to investors, namely, NOVO BANCO, S.A., Market Discipline Report 2021 which addresses the public disclosure obligations as defined in Part VIII of the Regulation n.º 575/2013 of the European Parliament and the Council at 26 of July 2013 (CRR) and EBA guidelines transposed to the Portuguese legislation through the Instruction n.º 5/2018 the Bank of Portugal.

In the case where the information of the present annual report supports the information in the Market Discipline report, this information is identified through references to this report as systematized in the Annex VI of the Market Discipline Report.

39.1 - Framework

Risk is implicit in the banking business and, as such, novobanco is naturally exposed to several categories of risks arising from external and internal factors, and which arise as a result of the characteristics of the markets in which the Bank operates and the activities it carries out.

Thus, the risk management and control of novobanco is based on the following premises:

- Independence from the other units of the group, in particular from the risk-taking units;
- Universality by application throughout novobanco;
- Integrality of the risk culture, through a holistic vision and anticipation of its materialisation;
- 3 Lines of defense model, with the objective of adequately detecting, measuring, monitoring and controlling the materially relevant risks to which novobanco is subject. This model implies that all employees, in their sphere of activity, are responsible for risk management and control.

39.2 - Governance and risk management structure

Risk Management, being vital to the development of novobanco‘s activity, is centralized in the Risk Management Function, composed by the Global Risk Department (DRG) and the Rating Department (DRT), which defines the principles of risk management and control in a holistic manner, in close coordination with the other second-tier units of novobanco, as well as with the Internal Audit Department.

All materially relevant risks are reported to the respective Management and Supervisory Bodies (EBD, GSB and both Risk and specialized Committees), which assume responsibility for supervising, monitoring, evaluating and defining the Risk Appetite and the control principles implemented.

Operationally, the DRG centralizes the Risk Management Function of the novobanco, namely the responsibilities inherent the function, supervising the Bank’s various materially relevant financial institutions, ensuring independence from the business areas.

The Head of the Risk Management Function at novobanco is responsible for the DRG. In order to ensure greater efficiency in liaison with the DRG, a local Risk Officer has been appointed in each relevant entity of novobanco. The intervention of the DRG is direct or of coordination in articulation with the units that assume the local Risk Management Function.

The risks identified as relevant and material are quantified as part of the Internal Capital Adequacy Assessment Process (ICAAP) exercise, with the most relevant being:

- credit risk;
- market risk;

- liquidity risk;
- operational risk.

The Risk Management Function also continuously monitors and evaluates ESG (Environmental, Social and Governance) Risks in close coordination with the Sustainability area, which contributes specific knowledge to the understanding of climate and environmental risk factors and social risk factors. ESG factors, refer to climate and environmental, social or governance issues that may have a positive or negative impact on the financial performance or on the creditworthiness of an entity, institution or person.

The main guidelines for managing the risks identified above are presented below:

- **credit risk:** the management and control of this type of risk is supported by the use of an internal system of risk identification, evaluation and quantification, as well as internal processes for attributing ratings and scorings for portfolios and their continuous monitoring in specific decision forums;
- **market risk:** existence of a specialized team that centralizes the management and control of market risk and interest rate risk in the banking book (IRRBB) of the Bank, in line with the regulations and good risk practices;
- **liquidity risk:** based on the measurement of liquidity outflows from contractual and contingent positions in normal and stressed situations, the management and control of this risk consists, on the one hand, in determining the size of the liquidity pool available at each moment, and on the other hand, in planning medium- and long-term stable financing sources;
- **operational risk:** the operational risk policies are defined by a specialized team of the DRG, there are other units, such as the Compliance Department and the Information Security Office that issue specific risk policies. The effectiveness of the methodologies for identifying and controlling operating risk is guaranteed through the actions of the operating risk management representatives appointed for each organic Unit, who promote a culture of risk in the first line of defense, in continuous collaboration with the DRG.

39.3 - Credit risk

Credit risk results from the possibility of financial losses arising from the default of the client or counterparty in relation to the contractual obligations established with the Bank within the scope of its credit activity. Credit risk is essentially present in traditional banking products - loans, guarantees and other contingent liabilities and derivatives. In credit default swaps (CDS), the net exposure between protection seller and buyer positions on each entity underlying the transactions, constitutes credit risk for NOVO BANCO. CDS are recorded at their fair value in accordance with the accounting policy described in Note 6.10.6.

A permanent management of the credit portfolios is carried out, which favors interaction between the various teams involved in risk management throughout the successive stages of the life of the credit process. This approach is complemented by the introduction of continuous improvements both in terms of methodologies and tools for risk assessment and control, as well as in terms of procedures and decision circuits.

The monitoring of the Bank's credit risk profile, namely the evolution of credit exposures and monitoring of credit losses, is carried out regularly by the Risk Committee. The compliance with approved credit limits and the correct functioning of the mechanisms associated with the approval of credit lines within the scope of the current activity of the commercial areas are also subject to regular analysis.

Main events in 2021

The most relevant events during 2021 and with an impact on credit risk management policies and procedures management policies and procedures consisted in the incorporation of specific adjustments to ensure an adequate level of impairments on the universe of customers who ended the moratorium in the second half of 2021.

In view of the COVID pandemic and the extension of its impact through 2021, it became imperative to ensure that the level of provisioning level would remain adequate in a post-COVID context. The level of uncertainty remains high regarding the economic recovery as well as the duration of the effects of the pandemic in the sectors of economic activity most affected by the pandemic. This uncertainty has become even more pressing on the universe that benefited from moratoria, namely in the ability to fully resume and maintain compliance with their credit obligations after the end of the moratoria.

For this purpose, several quantitative and qualitative criteria were identified in addition to those observed in the segmentation and segmentation and staging rules in force in the impairment model and applied them to the universe of exposures that benefited from moratoria until the second half of 2021. By verifying these criteria, these exposures could see their original stage worsened and/or their originally calculated and/or the risk notation itself considered for the purpose of calculating impairment.

Therefore, novobanco defined a set of 8 additional criteria for the universe of exposures that benefited from the moratorium, on which it considered, for purposes of calculating impairment at December 2021, a stage and/or a level of risk rating aggravated risk.

These criteria and the consequent adjustment are systematized in the table below:

Nº	Criteria	Adjustment
1	Debtors with credit more than 45 days overdue	Stage 3 Classification
2	Individuals with signs of Unlikely to Pay	Stage 3 Classification
3	Small companies with signs of Unlikely to Pay	Stage 3 Classification
4	Non-rated companies	Stage 2 rating and assigned the worst risk rating
5	Debtors with restructured credit due to financial difficulties	Risk rating downgrade
6	Individuals with signs of significant deterioration of credit risk	Stage 2 classification and risk rating downgrade
7	Debtors with a current rating at the threshold of significant deterioration of credit risk	Stage 2 Classification
8	Small businesses with proposed downgrade of rating	Risk rating downgrade

The first three adjustments aimed to capture situations of debtors that, having benefited from a prolonged period of moratorium and consequent increase in liquidity, presented defaults after this period and/or reduced financial capacity to resume their obligations.

The remaining adjustments reflect situations of debtors who, also having benefited from a prolonged period of moratorium and consequent increase in liquidity, present less serious signs than the first three groups. Not being situations of default, they are situations of debtors who show signs of difficulty in fully complying with their responsibilities. their responsibilities. As it is not possible to translate these difficulties into the Customer's final rating, the adjustment applied for purposes of calculating impairment is to worsen the stage to 2 and/or consider an aggravated risk notation than the current one.

The adjustments systematized above were incorporated into the collective impairment calculation as post-model adjustments and simultaneously with the update of the calculation support scenarios, with the corresponding update of the forward-looking risk.

The exclusive impact of these adjustments was an increase in impairments of €16 million. This impact was partially mitigated by the update of the macroeconomic scenarios that support the collective impairment calculation through the forward-looking parameters.

This update occurred in 2021 and the macroeconomic scenarios were taken into account as described in Note 39 - Activity Risk Management.

39.3.1 - Credit risk exposure

novobanco maximum credit risk exposure is analyzed as follows:

(in thousands of Euros)

	31.12.2021			31.12.2020		
	Gross value	Impairment	Net Value	Gross value	Impairment	Net Value
Deposits with and loans and advances to banks	452 884	(1 183)	451 701	585 371	(250 153)	335 218
Derivatives for trading and fair value option derivatives	263 244	-	263 244	388 311	-	388 311
Securities held for trading	114 465	-	114 465	267 016	-	267 016
Securities at fair value through profit/loss - mandatory	559 227	-	559 227	647 082	-	647 082
Securities at fair value through other comprehensive income	7 083 966	(3 668)	7 080 298	7 759 224	(3 660)	7 755 564
Securities at amortised cost	3 138 465	(247 772)	2 890 693	3 077 342	(202 460)	2 874 882
Loans and advances to customers	23 165 062	(1 235 757)	21 929 305	23 332 108	(1 587 003)	21 745 105
Derivatives - hedge accounting	2 250 308	-	2 250 308	13 606	-	13 606
Other assets	783 245	(165 832)	617 413	621 407	(165 340)	456 067
Guarantees and standby letters provided	2 221 575	(79 339)	2 142 236	2 815 920	(91 905)	2 724 015
Documentary credits	402 332	-	402 332	410 292	-	410 292
Revocable and irrevocable commitments	5 849 281	(12 436)	5 836 845	7 049 445	(9 579)	7 039 866
Credit risk associated with the credit derivatives' reference entities	-	-	-	4 798	-	4 798
	46 284 054	**(1 745 987)**	**44 538 067**	**46 971 922**	**(2 310 100)**	**44 661 822**

For financial assets in the balance sheet, the maximum exposure to credit risk is represented by the accounting net book value. For the off-balance sheet elements, the maximum exposure of the guarantees is the maximum amount that the Bank would have to pay if the guarantees were executed. For loan commitments and other credit-related commitments of an irrevocable nature, the maximum exposure is the total amount of the commitments assumed.

Impairment is calculated on a collective or individual basis in accordance with the accounting policy described in Note 6.16. Whenever the value of the collateral, net of haircuts (taking into account the type of collateral), equals or exceeds the exposure, the individual impairment may be nil. Hence, the Bank does not have any overdue financial assets for which it has not performed a review regarding their recoverability and the subsequent impairment recognition, when necessary.

39.3.2 – Impairment Models scenarios

The exercise of build the base and alternative macroeconomic scenarios for the Portuguese economy is based on a combination of econometric forecasts, information on forecasts from other external institutions and application of subjective expert judgment.

In the first component, GDP growth is estimated through estimates for the growth of expenditure components, obtaining GDP through the formula GDP = Consumption + Investment + Exports - Imports. The econometric specifications chosen are those that, after testing different alternatives, generate the best result.

The econometric estimates thus obtained are then weighted with forecasts from external institutions, according to the principle that the combination of different projections tends to be more accurate than just a forecast (the risk of errors and bias associated with specific methods and variables is minimized).

The forecasts for prices (consume and real estate) and unemployment follow a similar methodology: own forecasts based on an estimated model, weighted with forecasts from external institutions, if available. In a base scenario, the projections for interest rates start from market expectations (provided by Bloomberg), with possible adjustments in accordance with the principles defined above, if considered appropriate (weighting by expert judgment and forecasts from external institutions). The alternative scenarios are based on the historical observation of deviations from the trend in GDP behavior (cost and contraction cycles), the reference of EBA recommendations for extreme adverse scenarios, the stylized facts of economic cycles, with respect to the components of expenditure, prices, unemployment, etc. and estimates.

Thus, when revising / updating the scenarios, the respective probabilities of execution are also reviewed. Once the scenarios are updated, the values of the risk parameters are updated for later consideration in the scope of the Impairment calculation. The final impairment calculated will thus result from the sum of the impairment value of each scenario, weighted by the respective probability of execution.

Currently, 3 scenarios are considered for the calculation of impairment on a collective basis: base case, downside case (or adverse) and an upside case. The scenarios considered and the respective evolution of the main macroeconomic variables are described in the tables below:

A - Base Scenario, with a relative weight of 60%.

	Unit	2019	2020	2021	2022	2023	2024
GDP	Real growth %	2.7	-8.4	4.5	5.3	2.4	2.2
Private Consumption	Real growth %	3.0	-5.5	4.5	4.6	2.3	2.1
Government Expenditure	Real growth %	2.1	0.4	4.3	1.8	0.3	0.3
Investment	Real growth %	3.2	-5.7	5.3	8.2	5.6	4.9
Exports	Real growth %	4.1	-18.6	9.3	10.1	4.9	4.5
Imports	Real growth %	4.9	-12.1	9.5	8.5	5.1	4.7
Domestic Demand	Real growth %	3.1	-5.6	4.6	4.8	2.6	2.3
GDP	EUR mn (real)	203 854	186 645	194 971	205 317	210 330	214 962
Private Consumption	EUR mn (real)	132 018	122 677	128 197	134 095	137 179	140 059
Government Expenditure	EUR mn (real)	33 772	33 918	35 376	36 013	36 121	36 230
Investment	EUR mn (real)	36 795	34 680	36 518	39 513	41 725	43 770
Exports	EUR mn (real)	88 102	71 683	78 350	86 263	90 490	94 562
Imports	EUR mn (real)	86 751	76 229	83 471	90 566	95 185	99 658
Domestic Demand	EUR mn (real)	202 585	191 275	200 092	209 620	215 025	220 059
Net External Demand	EUR mn (real)	1 351	-4 546	-5 121	-4 303	-4 695	-5 097
Prices							
CPI	%	0.3	0.0	1.2	1.9	1.6	1.7
Real Estate (Residential)	%	9.6	8.4	6.6	3.7	2.5	2.0
Real Estate (Commercial)	%	1.9	1.7	1.5	2.3	1.6	1.4
Equity prices (incremental change)	%	10.2	-6.1	15.0	0.0	0.0	0.0
Unemployment	% labour force	6.6	7.0	6.9	6.6	6.4	6.3
Households Disposable Income	EUR mn (nominal)	147 925	146 873	154 364	160 692	165 192	169 322
Households Savings	EUR mn (nominal)	10 663	18 820	17 131	14 420	13 012	11 149
Households Savings Rate	% Disp Income	7.2	12.8	11.1	9.0	7.9	6.6
Household Investment (GFCF)	EUR mn (nominal)	8 472	8 224	8 553	8 904	9 171	9 372
Non Fin Corporations Gross Disposable Income (Savings)	EUR mn (nominal)	19 452	16 062	20 302	21 541	22 381	23 209
Non Financial Corporations Investment	EUR mn (nominal)	26 905	24 142	26 508	28 337	29 612	30 500
Capital Transfers - net acquisition/disposal of assets (non-financial & non-produced)	EUR mn (nominal)	352	2 398	2 800	4 900	4 900	4 100
Non Financial Corporations Financing Capacity	EUR mn (nominal)	-7 101	-5 682	-3 406	-1 896	-2 331	-3 191

	Unit	2019	2020	2021	2022	2023	2024
Euribor (annual average)							
3-month	%	-0.36	-0.43	-0.54	-0.43	-0.17	0.05
end-of-period	*%*	*-0.38*	*-0.55*	*-0.50*	*-0.35*	*0.01*	*0.09*
6-month	%	-0.30	-0.37	-0.51	-0.41	-0.15	0.07
end-of-period	*%*	*-0.32*	*-0.53*	*-0.48*	*-0.33*	*0.03*	*0.11*
12-month	%	-0.22	-0.31	-0.45	-0.37	-0.13	0.09
end-of-period	*%*	*-0.25*	*-0.50*	*-0.42*	*-0.31*	*0.05*	*0.13*
Sovereign Yields (average)							
Bund 10Y	%	-0.21	-0.47	-0.23	-0.03	0.11	0.21
end-of-period	*%*	*-0.19*	*-0.57*	*-0.10*	*0.05*	*0.17*	*0.24*
PGB 10Y	%	0.77	0.42	0.30	0.71	1.01	1.16
end-of-period	*%*	*0.44*	*0.03*	*0.52*	*0.90*	*1.12*	*1.19*
PGB 2Y	%	-0.42	-0.42	-0.57	-0.31	0.00	0.13
end-of-period	*%*	*-0.55*	*-0.73*	*-0.51*	*-0.10*	*0.10*	*0.15*
10Y PGB-Bund spread							
Annual Average	bps	98	89	53	74	90	95
end-of-period	*bps*	*63*	*60*	*62*	*85*	*95*	*95*
10Y-2Y PGB Spread							
Annual Average	bps	119	84	87	102	101	103
end-of-period	*bps*	*99*	*76*	*103*	*100*	*102*	*104*

The baseline macroeconomic scenario translates into a projection of the Gross Domestic Product to fully recover in 2022 the level it had in 2019, continuing with moderate growth in 2023 and 2024. Regarding reference rates, the EURIBOR would remain with negative values in 2022, although projecting with signs of returning to positive values at the end of 2023, a fact that would benefit the results of the financial sector - if low values of cost of risk persist.

B - Less favorable / adverse scenario, with a relative weight of 30%

	Unit	2019	2020	2021	2022	2023	2024
GDP	Real growth %	2.7	-8.4	4.5	-4.0	-1.6	0.5
Private Consumption	Real growth %	3.0	-5.5	4.5	-4.4	-1.9	1.0
Government Expenditure	Real growth %	2.1	0.4	4.3	0.8	0.6	0.3
Investment	Real growth %	3.2	-5.7	5.3	-3.7	-0.6	1.6
Exports	Real growth %	4.1	-18.6	9.3	-14.3	-8.8	4.5
Imports	Real growth %	4.9	-12.1	9.5	-12.1	-7.2	5.4
Domestic Demand	Real growth %	3.1	-5.6	4.6	-3.4	-1.2	1.0
GDP	EUR mn (real)	203 854	186 645	194 971	187 158	184 206	185 154
Private Consumption	EUR mn (real)	132 018	122 677	128 197	122 557	120 228	121 430
Government Expenditure	EUR mn (real)	33 772	33 918	35 376	35 659	35 873	35 981
Investment	EUR mn (real)	36 795	34 680	36 518	35 167	34 956	35 515
Exports	EUR mn (real)	88 102	71 683	78 350	67 146	61 237	63 992
Imports	EUR mn (real)	86 751	76 229	83 471	73 371	68 088	71 765
Domestic Demand	EUR mn (real)	202 585	191 275	200 092	193 383	191 058	192 927
Net External Demand	EUR mn (real)	1 351	-4 546	-5 121	-6 225	-6 851	-7 772
Prices							
CPI	%	0.3	0.0	1.4	1.6	-0.4	-0.1
Real Estate (Residential)	%	9.6	8.4	6.6	-11.5	-8.5	-4.3
Real Estate (Commercial)	%	1.9	1.7	1.5	-13.0	-9.6	-4.9
Equity prices (incremental change)	%	10.2	-6.1	15.0	-50.0	-45.0	-35.0
Unemployment	% labour force	6.6	7.0	6.9	10.3	11.6	11.9
Households Disposable Income	EUR mn (nominal)	147 925	146 873	154 364	150 813	149 607	150 953
Households Savings	EUR mn (nominal)	10 663	18 820	16 860	17 257	19 112	19 285
Households Savings Rate	% Disp Income	7.2	12.8	10.9	11.4	12.8	12.8
Household Investment (GFCF)	EUR mn (nominal)	8 472	8 224	8 553	8 065	7 832	7 879
Non Fin Corporations Gross Disposable Income (Savings)	EUR mn (nominal)	19 452	16 062	20 302	19 531	19 257	19 546
Non Financial Corporations Investment	EUR mn (nominal)	26 905	24 142	26 508	24 228	23 308	23 680
Capital Transfers - net acquisition/disposal of assets (non-financial & non-produced)	EUR mn (nominal)	352	2 398	2 800	2 400	2 200	2 200
Non Financial Corporations Financing Capacity	EUR mn (nominal)	-7 101	-5 682	-3 406	-2 297	-1 850	-1 934
	% GDP	-3.3	-2.8	-1.6	-1.1	-0.9	-0.9
	Unit	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
Euribor (annual average)							
3-month	%	-0.36	-0.43	-0.54	-0.55	-0.60	-0.58
end-of-period	*%*	*-0.38*	*-0.55*	*-0.50*	*-0.60*	*-0.60*	*-0.55*
6-month	%	-0.30	-0.37	-0.51	-0.53	-0.58	-0.55
end-of-period	*%*	*-0.32*	*-0.53*	*-0.48*	*-0.58*	*-0.58*	*-0.52*
12-month	%	-0.22	-0.31	-0.45	-0.49	-0.55	-0.53
end-of-period	*%*	*-0.25*	*-0.50*	*-0.42*	*-0.55*	*-0.55*	*-0.50*
Sovereign Yields (average)							
Bund 10Y	%	-0.21	-0.47	-0.23	-0.43	-0.73	-0.70
PGB 10Y	%	0.77	0.42	0.30	0.94	1.35	1.33
PGB 2Y	%	-0.42	-0.42	-0.57	0.02	0.53	0.50
10Y PGB-Bund spread							
Annual Average	bps	98	89	53	136	208	203
10Y-2Y PGB Spread							
Annual Average	bps	119	84	87	92	83	83

The less favourable - or adverse - macroeconomic scenario considers that the effects of the COVID pandemic will still be felt in 2022, leading to a recession that translates into a 4% drop in Gross Domestic Product in 2022, registering tenuous growth in this variable only in 2024. Regarding reference rates, the EURIBOR would remain with negative values in all years of the projection.

C - Most favourable scenario, with a relative weight of 10%

	Unit	2019	2020	2021	2022	2023	2024
GDP	Real growth %	2.7	-8.4	4.7	6.7	3.9	3.2
Private Consumption	Real growth %	3.0	-5.5	5.1	6.3	3.5	2.8
Government Expenditure	Real growth %	2.1	0.4	4.6	0.5	0.4	0.4
Investment	Real growth %	3.2	-5.7	4.9	14.3	9.2	7.1
Exports	Real growth %	4.1	-18.6	9.5	20.4	21.1	13.2
Imports	Real growth %	4.9	-12.1	10.1	19.6	20.6	12.8
Domestic Demand	Real growth %	3.1	-5.6	5.0	6.7	4.1	3.3
GDP	EUR mn (real)	203 854	186 645	195 356	208 421	216 449	223 399
Private Consumption	EUR mn (real)	132 018	122 677	128 934	137 056	141 853	145 825
Government Expenditure	EUR mn (real)	33 772	33 918	35 478	35 656	35 798	35 941
Investment	EUR mn (real)	36 795	34 680	36 379	41 582	45 407	48 631
Exports	EUR mn (real)	88 102	71 683	78 493	94 505	114 446	129 553
Imports	EUR mn (real)	86 751	76 229	83 928	100 378	121 056	136 551
Domestic Demand	EUR mn (real)	202 585	191 275	200 791	214 294	223 059	230 398
Net External Demand	EUR mn (real)	1 351	-4 546	-5 435	-5 873	-6 610	-6 998
Prices							
CPI	%	0.3	0.0	1.3	1.4	1.7	1.9
Real Estate (Residential)	%	9.6	8.4	8.3	4.9	4.0	3.6
Real Estate (Commercial)	%	1.9	1.7	1.5	1.8	1.6	1.4
Equity prices (incremental change)	%	10.2	-6.1	13.7	15.0	20.0	25.0
Unemployment	% labour force	6.6	7.0	6.6	5.7	5.5	5.3
Households Disposable Income	EUR mn (nominal)	147 925	146 873	154 364	163 625	170 170	175 616
Households Savings	EUR mn (nominal)	10 663	18 820	16 343	14 563	13 268	11 094
Households Savings Rate	% Disp Income	7.2	12.8	10.6	8.9	7.8	6.3
Household Investment (GFCF)	EUR mn (nominal)	8 472	8 224	8 553	8 981	9 385	9 751
Non Fin Corporations Gross Disposable Income (Savings)	EUR mn (nominal)	19 452	16 062	20 302	21 987	23 571	24 820
Non Financial Corporations Investment	EUR mn (nominal)	26 905	24 142	26 508	28 894	30 772	32 495
Capital Transfers - net acquisition/disposal of assets (non-financial & non-produced)	EUR mn (nominal)	352	2 398	2 800	2 900	2 900	2 800
Non Financial Corporations Financing Capacity	EUR mn (nominal)	-7 101	-5 682	-3 406	-4 006	-4 301	-4 875
	% GDP	-3.3	-2.8	-1.6	-1.7	-1.8	-1.9
	Unit	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
Euribor (annual average)							
3-month	%	-0.36	-0.43	-0.55	-0.36	0.10	0.64
end-of-period	*%*	*-0.38*	*-0.55*	*-0.57*	*-0.15*	*0.35*	*0.93*
6-month	%	-0.30	-0.37	-0.52	-0.34	0.12	0.67
end-of-period	*%*	*-0.32*	*-0.53*	*-0.55*	*-0.13*	*0.37*	*0.96*
12-month	%	-0.22	-0.31	-0.49	-0.25	0.21	0.74
end-of-period	*%*	*-0.25*	*-0.50*	*-0.50*	*0.00*	*0.42*	*1.05*
Sovereign Yields (average)							
Bund 10Y	%	-0.21	-0.47	-0.31	0.09	0.58	1.09
end-of-period	*%*	*-0.19*	*-0.57*	*-0.18*	*0.35*	*0.80*	*1.38*
PGB 10Y	%	0.77	0.42	0.29	0.74	1.18	1.57
end-of-period	*%*	*0.44*	*0.03*	*0.47*	*1.00*	*1.35*	*1.78*
PGB 2Y	%	-0.42	-0.42	-0.65	-0.31	0.21	0.56
end-of-period	*%*	*-0.55*	*-0.73*	*-0.66*	*0.05*	*0.37*	*0.74*
10Y PGB-Bund spread							
Annual Average	bps	98	89	60	65	60	48
end-of-period	*bps*	*63*	*60*	*65*	*65*	*55*	*40*
10Y-2Y PGB Spread							
Annual Average	bps	119	84	94	104	97	101
end-of-period	*bps*	*99*	*76*	*113*	*95*	*98*	*104*

The most favourable macroeconomic scenario is similar to the baseline scenario, differing in general by considering that the recovery of the economy will be at higher levels. In this scenario, the Gross Domestic Product projection for 2022 would reach 6.7% and grow above 3% in 2023 and 2024. Regarding reference rates, the EURIBOR would remain at negative values in 2022, also returning to positive values at the end of 2023.

39.3.3 - Impairment Models

As at 31 December 2021 and 2020, the detail of the amount of gross credit exposure and impairment assessed individually and collectively, by segment was as follows:

(in thousands of Euros)

	31.12.2021					
	Individual Assessment (1)		Collective Assessment (2)		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	1 295 586	623 390	12 270 141	390 865	13 565 727	1 014 255
Mortgage loans	2 956	145	8 330 890	44 480	8 333 846	44 625
Consumer and other loans	147 997	132 353	1 117 492	44 524	1 265 489	176 877
Total	**1 446 539**	**755 888**	**21 718 523**	**479 869**	**23 165 062**	**1 235 757**

(1) Loans and advances for which the final impairment was determined and approved by the Impairment Committee

(2) Loans and advances for which the final impairment was determined according to the calculation rules of the collective impairment model

(in thousands of Euros)

	31.12.2020					
	Individual Assessment (1)		Collective Assessment (2)		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	1 666 138	958 934	12 057 069	388 758	13 723 207	1 347 692
Mortgage loans	4 368	212	8 390 178	52 649	8 394 546	52 861
Consumer and other loans	155 734	136 305	1 058 621	50 145	1 214 355	186 450
Total	**1 826 240**	**1 095 451**	**21 505 868**	**491 552**	**23 332 108**	**1 587 003**

(1) Loans and advances for which the final impairment was determined and approved by the Impairment Committee

(2) Loans and advances for which the final impairment was determined according to the calculation rules of the collective impairment model

In the case of loans analyzed by the Impairment Committee for which the impairment determined automatically by the Impairment Model was not changed, they are included and presented in the "Collective evaluation".

As at 31 December 2021 and 2020, the detail of the amount of gross credit exposure and impairment assessed individually and collectively by geography was as follows:

(in thousands of Euros)

	31.12.2021					
Country	Individual Assessment *		Colective Assessment **		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Portugal	1 274 884	670 486	19 284 575	431 798	20 559 459	1 102 284
Spain	58 906	8 008	563 112	13 475	622 018	21 483
United Kingdom	-	-	299 164	11 814	299 164	11 814
France	-	-	261 577	3 347	261 577	3 347
Switzerland	-	-	228 949	1 761	228 949	1 761
Luxembourg	-	-	261 664	2 535	261 664	2 535
Others	112 749	77 394	819 482	15 139	932 231	92 533
Total	**1 446 539**	**755 888**	**21 718 523**	**479 869**	**23 165 062**	**1 235 757**

* Loans and advances for which the final impairment was determined and approved by the Impairment Committee

** Loans and advances for which the final impairment was determined according to the calculation rules of the collective impairment model

(in thousands of Euros)

Country	31.12.2020					
	Individual Assessment *		Colective Assessment **		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Portugal	1 620 153	945 643	19 460 490	451 730	21 080 643	1 397 373
Luxembourg	29 762	17 762	407 101	13 001	436 863	30 763
United Kingdom	-	-	261 837	6 599	261 837	6 599
Spain	-	-	249 092	3 294	249 092	3 294
Cayman Islands	-	-	218 943	1 531	218 943	1 531
Ireland	-	-	164 976	2 024	164 976	2 024
Others	176 325	132 046	743 429	13 373	919 754	145 419
Total	**1 826 240**	**1 095 451**	**21 505 868**	**491 552**	**23 332 108**	**1 587 003**

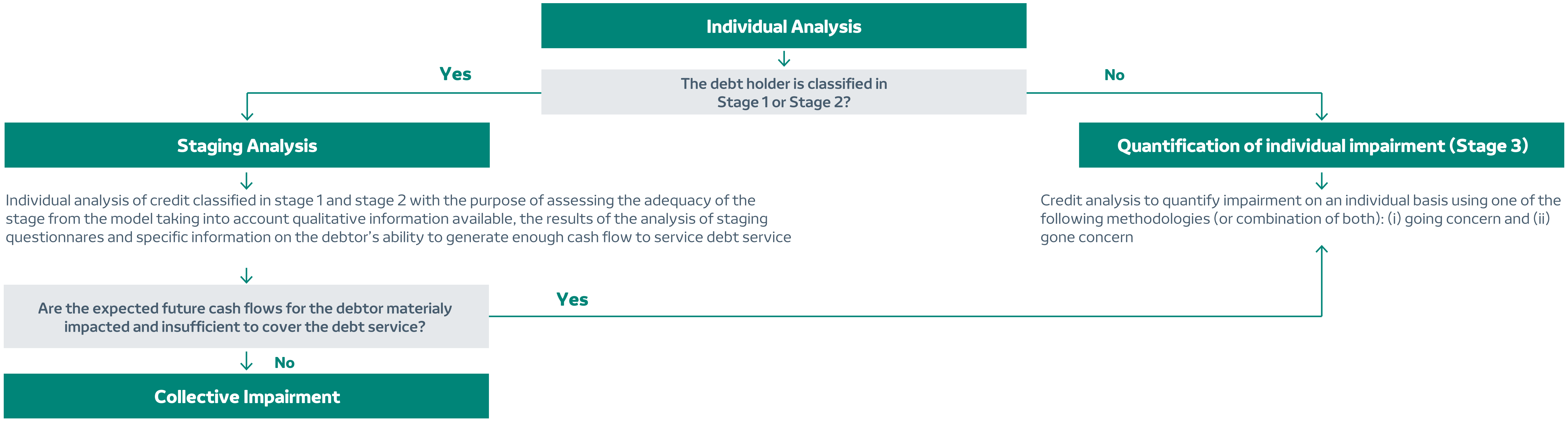
* Loans and advances for which the final impairment was determined and approved by the Impairment Committee

** Loans and advances for which the final impairment was determined according to the calculation rules of the collective impairment model

39.3.3.1 - Individual impairment analysis

The Individual Credit Analysis comprises a staging analysis and an individual impairment quantification analysis. The staging analysis is performed for debtors previously classified as stage 1 and stage 2, with the purpose of evaluating the adequacy of the assigned stage with additional information obtained on an individual basis. The individual impairment quantification analysis aims to determine the most appropriate impairment rate for each credit customer, regardless of the amount resulting from the Collective Impairment Model. Clients for which, after conducting individual analysis, it is not concluded that there is an objective loss of impairment are maintained in the Collective Impairment Model. The Individual Analysis of the selected clients is carried out based on the information provided by the Commercial Structures regarding the client / Bank's framework, historical and forecast cash flows (when available) and existing collateral.

The scheme below is illustrative of the individual credit analysis to be carried out for the purpose of concluding on the classification in terms of staging of debtors:



Selection Criteria

Individual Analysis (staging analysis and, when applicable, quantification of individual impairment) should be carried out for the borrowers who:

- Register Stage 3 exposure equal to or greater than Euro 1,000,000;
- Register Stage 2 exposure equal to or greater than Euro 5,000,000;
- Register Stage 2 exposure equal to or greater than Euro 1,000,000 and have no rating assigned;
- Register Stage 1 exposure equal to or greater than Euro 5,000,000 and have no rating assigned;
- Register Stage 1 exposure equal or greater than Euro 25,000,000 (individually significant exposure);
- Fit into the Financial Holding risk segment and register exposure equal to or greater than Euro 5,000,000;
- Fit into the Real Estate risk segment and register exposure equal to or greater than Euro 5,000,000;
- Are identified by the Committee itself based on other criteria that justify (e.g., sector of activity);
- In the past, specific impairment has been attributed to them;
- In the face of any new element that may have an impact on the calculation of impairment, be proposed for analysis by one of the stakeholders of the Impairment Committee or by another Body.

The identification of the target customers for Individual Analysis will be updated monthly, in order to contemplate any changes that may occur throughout the year. The Committee analysis of the customers identified in the previous paragraph will be carried out in the month in which:

- The client registers, for the first time, one of the selection criteria for Individual Impairment Analysis, mentioned in the previous paragraph;
- Expiry of the Analysis expiration date;
- Its analysis is requested by one of the participants of the Impairment Committee or by another Body.

The Individual Impairment Analysis can be carried out for individual customers but should whenever be possible consider the Economic Group view of the selected customers.

Rules of Operation

The Individual Analysis of the selected clients is carried out based on the information provided by the Commercial Units regarding the client / Bank's framework, historical and forecast cash flows (when available) and existing collateral. For the analysis of the impairment quantification on an individual basis, a scenario is established that is expected to recover credit: through the continuity of the client's business or through the execution of the collateral. If this analysis results in no impairment being necessary, the impairment will be determined by collective analysis, that is, by the collective impairment model (except for cases with objective evidence of loss / Default, in which the final rate will have to be defined).

The Individual Impairment quantification analysis determines, for each period, the best recovery scenario, aligning the commercial strategies defined for the client, with the different recovery possibilities. When, due to lack of information, it is not possible to identify or update the recovery scenario, the previous rate is maintained, and a new date is set for the client's review.

39.3.3.2 - Collective Model

In line with the principles set out in accounting standard IFRS9, an entity should use information about past events, current conditions and forecasts of future economic conditions in estimating risk parameters. The historical information should accurately capture current conditions and, when measuring expected credit losses, the maximum period to be considered should be the maximum contractual period. For these reasons, the risk parameters associated with the measurement of losses under the IFRS9 accounting standard are often referred to as point-in-time (PIT) parameters. In particular, regarding the estimation of the PD risk parameter, in line with the requirements of the IRFS9 standard, namely with the provisions of paragraph [B5.5.43], the probability of default (PD) was estimated in a 12-month time horizon, but also in a long perspective, capturing the remaining life cycle, PD Lifetime.

Considering the requirement to measure losses over a maximum time horizon, it becomes necessary to estimate the PD parameter for different time horizons, greater than or equal to 12 months, thus obtaining the so-called "PD term structures", which aim to reflect the PD associated with each contract, containing a given set of characteristics, for each reference date. The PD lifetime estimated, refers to the conditional marginal probability used in the ECL calculation, representing the probability of default of the next cash flow, while the PD structure is the cumulative probability of default, being used to estimate the PD over a defined time interval, for example, PD term structure 5 years is equivalent to the probability of default over 5 years. In the review exercise carried out, a time horizon was considered for estimating the term structure of the DP from January 2015 to December 2019 (5 years). Since 2020 and 2021 are years where the PD would be underestimated due to the granting of moratoria, the values of PD 2020 and 2021 were estimated according to the application of the forward-looking methodology - described below - based on the results effectively verified in the relevant macroeconomic variables.

In line with the framework for developing the risk parameter PD scope IFRS9, the primary approach for obtaining the so-called term structure of PDs, is based on estimated Hazard curves. The hazard function h (t) also called hazard (failure) rate or mortality force represents the instantaneous death rate of an individual in the time interval t to t+1, knowing that he or she survived until time t. The use of this methodology is justified by the need to include, in the estimation process, survival effects as well as the presence of the maturity effect. This approach was used to estimate the PD parameter for each client (corporate High Default Portfolio) or for each contract (individual portfolio), as a function of the underlying rating/score class.

For Low Default Portfolios, typically without statistical significance in the number of observed defaults that allow the use of statistical methods (such as hazard curves), an alternative approach was used. This approach consists in extrapolating the PD determined and used for capital purposes (IRB), assuming a constant marginal probability but applying an adjustment for ratings below or equal to "b+", as a consequence of the difference between the PD Through the Cycle and the observed Default Rates of the last 5 years, in these ratings versus the others. Additionally, in short term portfolios, with contractual maturities lower than 12 months, the approach followed in the estimation of the PD risk parameter, consisted in calculating the observed annual average default rate and extrapolating it in order to build the PD term structure and the PD lifetime.

Just as important as forecasting Default, is the perception of the loss associated with the contract given a Default event. The loss given default is defined as the maximum loss incurred on an exposure in relation to the amount at risk on the date of default.

The magnitude of the loss will depend on the moment of Default, thus segregating the following types of parameters:

1. LGD non-Default – estimated loss parameter applicable to contracts that are not yet in Default;

1. 2. LGD in-Default or Expected Recovery Rate - parameter of estimated loss applicable to contracts that are in Default and which depends on the best estimate for the expected loss;

To determining the LGD parameter (non-default and TRE), a specific framework was developed and approved consisting of the following methodological steps:

- Determination of the RDS (Reference data Set): in this step, the contracts/clients, with entry into default status in line with the new definition (nDoD- historical recovery) from January 2010 to July 2019 were selected.
- Determining the realized (or observed) LGD: for each class and each of the defined completion states, determine the associated loss amount.
- Determination of the estimated LGD: for clients/contracts with open positions (incomplete cases), estimate up to the defined workout the amount still recoverable (based on loss/recovery history). For corporate portfolios, the estimation of incomplete cases was done using the chain-ladder method (client view), while for individual portfolios the probabilities/severities method was used (contract view).
- Determination of the ERR: based on the estimated curve (0->workout) determine the expected marginal recovery at each point in time.
- In order to update the LGD and TRE parameters, the following input parameters were also updated: o Haircut relative to collateral; o Update rate for each portfolio; o Cost model, including direct and indirect costs; o Update of the workout period and its adaptation to the current and future strategy of the collections process, for each estimation segment.

The incorporation of forward-looking information was done through macroeconomic models, which estimate the evolution of risk parameters through the evolution of macroeconomic variables. Four PD models were developed: Large and Medium-Sized Enterprises, Small Enterprises and Start-ups, Home Loans and Other Consumer Credit, and three LGD models: Home Loans, Consumer Credit and Corporate Credit.

These models are based, on the one hand, on the historical default series and, on the other hand, on the historical series of the main macroeconomic variables (GDP, inflation, interest rate, unemployment rate and house prices). Historical quarterly data since 2010 were used.

With regard to the projection models for PD and LGD in the housing segment, the first step consisted of a multivariate analysis of the explanatory variables, for which the following variables were used: GDP, unemployment rate, inflation rate, residential real estate price growth and inflation rate. On the other hand, the historical default series were transformed through the logit function in order to ensure that the projections present values between 0 and 1, even in extremely adverse scenarios.

Next, linear regression modeling was performed considering 3 explanatory variables, with the objective of determining the regression that best explains the evolution of the risk parameter.

The choice of the final model depends on the economic sense and its statistical performance. To determine the statistical performance of the models, the following indicators were taken into account:

- R2: which indicates that part of the evolution of the risk parameter is explained by the explanatory variables, that is, the explanatory power of the model;
- P- value of the explanatory variables: which indicates whether the explanatory variable in question is significant in explaining the evolution of the risk parameter;
- Variance inflation factors (VIF): which analyzes whether the explanatory variables are correlated. If the variable has a value greater than 10 it is considered to have a high correlation with the other variables, i.e., only models with VIFs less than 10 are considered;
- Normality of the residuals, which checks whether the model's residuals are normally distributed, using the Q-Q plot and Shapiro-Wilk tests;
- Homoscedasticity: which seeks to demonstrate that the variance of the errors is constant, since it is one of the assumptions of the modeling through linear regression, based on a regression of the risk parameter with its residues, ensuring that this same regression has a p-value greater than 5%;
- Self-correlation of errors: using the Durbin-Watson test, it is ensured that the result is between 1.5 and 2.5.

In order to correct problems of autocorrelation of errors, the ARIMA (autoregressive integrated moving average model) model was used and the performance of the final model was again tested, through the Durbin-Watson test, after auto-correlation correction.

With regard to the LGD Individual Credit projection model, although the aforementioned methodology was followed, the results obtained proved to be counterintuitive, namely in terms of the economic interpretation of the variables versus the statistical results. For this reason, all the models developed were rejected, and a future change similar to that projected for the CH segment was assumed for this segment (based on the model developed, whose results, in addition to being statistically significant, are also interpretable from an economic point of view), considering the correlation between these segments of households. As regards the forward-looking models within the scope of Corporate LGD, since the projection model was considered to be adequate both in the variables used and, in its interpretation, only the macroeconomic series were updated and the projection was updated accordingly.

39.3.3.3 - Collective analysis adjustments to the model's automatic result

After processing the impairment calculation and validating the consistency of the results obtained, all situations that may need an adjustment to the calculated impairment value are assessed. These adjustments are reflected, whenever possible, directly in the exposures.

When this is not possible, the calculated impairment value is recorded without being allocated to specific exposures and, for that purpose, the stage and the type of credit to which it refers are associated. Having the prerogative to ensure that all impairment is allocated to specific exposures, these impairment amounts initially constituted in the unallocated form will, once conditions exist, be fully distributed over the exposures in which their allocation is determined.

In terms of the governance model, both adjustments to specific exposures and impairment amounts constituted in the unallocated form must be validated and supported by an approval by a competent body, which, as a rule, will be the Extended Impairment Committee.

With the exception of the adjustments already described which were made on the universe that benefited from the moratorium in 2021, and whose impact we estimated in an impairment increase of €16 million, the remaining adjustments that are made result mainly from the need for data review / correction.

Therefore, most of the adjustments made in 2021 reflect the application of the collective impairment calculation rules but with corrected input data.

39.3.4 - Credit Risk Monitoring

39.3.4.1 - Internal rating models for Corporates, Institutions and shares

Regarding the rating models for corporate portfolios, different approaches are adopted depending on the size and sector of activity of the clients. Specific models are also used, adapted to loan operations of project finance, acquisition finance, object finance, commodity finance and real estate development finance.

Below is a summary table on the types of risk models adopted in the internal assignment of credit ratings:

Expert Judgement ↑ ↓ Statistical	Segmentation criteria	Model type	Description
	Sector, Size, Product → Large enterprises → Financial institutions → Municipalities → Institucional → Local and regional administrations → Real estate (Investment/ Promotion) → Acquisition Finance → Project Finance → Object Finance → Commodity Finance	Template	Ratings atributed by teams of analyst, using specific models by sector (templates) and financial and qualitative information.
	Medium enterprises	Semi-automatic	Rating model based in financial, qualitative and behavioral information, validated by analysis.
	Small enterprises Start-Up's and individual entrepreneurs	Automatic	Rating model based in financial, qualitative and behavioral information. Rating model based in qualitative and behavioral information.

The Bank's Rating Department has a Rating Model for the following segments: Start-ups; Individual Entrepreneurs (ENIs); Small business; Medium-sized companies; Big companies; Real Estate and Real Estate Income; Holding Large Company; Financial Institution; Municipalities and Institutional; Sovereign; Project Finance; Object, Commodity and Acquisition Finance; Financial Holding.

The segments for which rating models are not available are:

- Insurance and Pension Funds;
- Churches, political parties and non-profit associations with a turnover of less than Euro 500 thousand.

Regarding the credit portfolios of Large Companies, Financial Institutions, Institutional, Local and Regional Administrations and Specialized Loans - namely Project Finance, Object Finance, Commodity Finance and Acquisition Finance - the credit ratings are assigned by the novobanco Rating representation. This structure is made up of 7 multisectoral teams that comprise a team leader and several specialized technical analysts. The attribution of internal risk ratings by this team to these risk segments, classified as low default portfolios, is based on the use of "expert-based" rating models (templates) that are based on qualitative and quantitative variables, strongly correlated with the sector or sectors of activity in which the clients under analysis operate. With the exception of assigning a rating to specialized loans, the methodology used by the Rating representation is also governed by a risk analysis at the level of the maximum consolidation perimeter and by the identification of the status of each company in the respective economic group. The internal credit ratings are validated daily in a Rating Committee composed of members of the Rating Department's Management and the various specialized teams.

For the medium-sized corporate segment, statistical rating models are used, which combine financial data with qualitative and behavioral information. However, the publication of credit ratings requires the execution of a previous validation process that is carried out by a technical team of risk analysts, who also take into account behavioral variables. In addition to rating, these teams also monitor the customers' loan portfolio of the novobanco through the preparation of risk analysis reports, as provided for in internal regulations, in accordance with the current responsibilities / customer rating binomial, which may include specific recommendations on the credit relationship with a given customer, as well as technical advice on investment support operations, restructuring, or other operations subject to credit risk.

For the business segment, statistical scoring models are also used which have, in addition to financial and qualitative information, the behavioral variables of the companies and the partner(s) in the calculation of credit ratings.

There are also implemented scoring models specifically aimed at quantifying the risk of start-ups (companies established less than 2 years ago) and individual entrepreneurs (ENI). These customers together with the small companies, depending on the exposure value, are included in the regulatory retail portfolios.

Finally, for companies in the real estate sector (companies dedicated to the activity of real estate promotion and investment, especially small and medium-sized companies), taking into account their specificities, the respective ratings are assigned by a specialized central team, based on use of specific models that combine the use of quantitative and technical variables (real estate appraisals carried out by specialized offices), as well as qualitative and behavioral variables.

With regard to exposures equated to shares held by novobanco, directly or indirectly through the holding of investment funds, as well as shareholders loans and supplementary capital contributions, all included in the risk class of shares for the purposes of calculating credit risk weighted assets, they are classified in the various risk segments according to the characteristics of their issuers or borrowers, following the segmentation criteria presented above. These segmentation criteria determine the type of rating model to be applied to the issuers of the shares (or borrowers of the shareholders loans / supplementary capital contributions) and, therefore, to them.

39.3.4.2 - Relationships between internal and external ratings

The assignment of an internal rating to entities with an external rating is made through the Markets Template available in the Rating Calculation application. The Markets Template gathers the external ratings that were assigned to a specific entity by the rating agencies Standard & Poor's (S&P), Moody's and Fitch.

Specifically, the functionality of providing external ratings from S&P - XpressFeed feeds the application of External Ratings on a daily basis, which allows the external ratings published by these agencies for a given entity to be filled in the Markets Template. The external ratings assigned by Moody's and Fitch are not obtained automatically, having to be entered manually in the Markets Template, after consulting the respective websites.

The internal rating results, in the majority of situations, from the S&P equivalent external rating and, in exceptional situations, from the S&P equivalent external rating plus an internal adjustment, which must always be accompanied by justifying comments prepared by the analyst.

It should be noted that the S&P equivalent external rating is obtained by making a correspondence between the available external ratings and the rating scale of the referred financial rating agencies. The internal ratings produced by the Markets Template and which have had adjustments must be mandatorily approved and validated by the Rating Committee.

The table below shows the correspondence between the external ratings S&P, Moody's and Fitch and the equivalent external rating S&P:

S&P	Moody's	Fitch	*Rating* externo equivalente S&P
AAA	Aaa	AAA	AAA
AA+	Aa1	AA+	AA+
AA	Aa2	AA	AA
AA-	Aa3	AA-	AA-
A+	A1	A+	A+
A	A2	A	A
A-	A3	A-	A-
BBB+	Baa1	BBB+	BBB+
BBB	Baa2	BBB	BBB
BBB-	Baa3	BBB-	BBB-
BB+	Ba1	BB+	BB+
BB	Ba2	BB	BB
BB-	Ba3	BB-	BB-
B+	B1	B+	B+
B	B2	B	B
B-	B3	B-	B-
CCC+	Caa1	CCC+	CCC+
CCC	Caa2	CCC	CCC
CCC-	Caa3	CCC-	Lower than CCC
CC	Ca	CC	
SD	C	C	
D		RD/D	

39.3.4.3 - Internal scoring models for Individual portfolios

With regard to scoring models for individual portfolios, novobanco has origination / concession and behavioral scoring models (applied to operations older than 6 months).

These models are automatic, based on statistical models developed with internal information, considering socio-demographic information, loan characteristics, behavioral information and automatic penalties (if there are warning signs). In the case of behavioral models, information on the remaining loans of the contract holders is also considered.

The Bank is authorized by Bank of Portugal to use internal models in the calculation of regulatory capital requirements for the main portfolios of individuals: Mortgage Loans and Individual Loans. In addition, it has origination and behavioral scorings for the Credit Card, Overdraft and Loan Accounts products, which it uses for the purposes of designing and monitoring credit quality, however, not being IRB portfolios.

39.3.5 - Delinquency

The table below displays the assets impaired, or overdue but not impaired:

(in thousands of Euros)

	31.12.2021					
	Neither overdue nor impaired	Overdue but not impaired	Impaired	Total exposure	Impairment	Net exposure
Deposits with and loans and advances to banks	452 884	-	-	452 884	(1 183)	451 701
Securities held for trading	114 465	-	-	114 465	-	114 465
Bonds issued by government and other public entities	*114 465*	-	-	*114 465*	-	*114 465*
Securities at fair value through profit/loss - mandatory	559 227	-	-	559 227	-	559 227
Bonds issued by other entities	*559 227*	-	-	*559 227*	-	*559 227*
Securities at fair value through other comprehensive income	7 061 196	-	22 770	7 083 966	(3 668)	7 080 298
Bonds issued by government and other public entities	*5 685 067*	-	-	*5 685 067*	*(2 995)*	*5 682 072*
Bonds issued by other entities	*1 376 129*	-	*22 770*	*1 398 899*	*(673)*	*1 398 226*
Securities at amortised cost	2 826 278	-	312 187	3 138 465	(247 772)	2 890 693
Bonds issued by government and other public entities	*371 273*	-	-	*371 273*	*(540)*	*370 733*
Bonds issued by other entities	*2 455 005*	-	*312 187*	*2 767 192*	*(247 232)*	*2 519 960*
Loans and advances to customers	21 448 271	8 422	1 708 369	23 165 062	(1 235 757)	21 929 305

(in thousands of Euros)

	31.12.2020					
	Neither overdue nor impaired	Overdue but not impaired	Impaired	Total exposure	Impairment	Net exposure
Deposits with and loans and advances to banks	271 233	-	314 138	585 371	(250 153)	335 218
Securities held for trading	267 016	-	-	267 016	-	267 016
Bonds issued by government and other public entities	*267 016*	-	-	*267 016*	-	*267 016*
Securities at fair value through profit/loss - mandatory	647 082	-	-	647 082	-	647 082
Bonds issued by other entities	*647 082*	-	-	*647 082*	-	*647 082*
Securities at fair value through other comprehensive income	7 736 454	-	22 770	7 759 224	(3 660)	7 755 564
Bonds issued by government and other public entities	*6 406 465*	-	-	*6 406 465*	*(3 095)*	*6 403 370*
Bonds issued by other entities	*1 329 989*	-	*22 770*	*1 352 759*	*(565)*	*1 352 194*
Securities at amortised cost	2 957 737	-	119 605	3 077 342	(202 460)	2 874 882
Bonds issued by government and other public entities	*415 192*	-	-	*415 192*	*(576)*	*414 616*
Bonds issued by other entities	*2 542 545*	-	*119 605*	*2 662 150*	*(201 884)*	*2 460 266*
Loans and advances to customers	21 195 090	6 366	2 130 652	23 332 108	(1 587 003)	21 745 105

Impaired exposures correspond to (i) exposures with objective evidence of loss ("Exposure in default", according to the internal definition of default - which corresponds to Stage 3); and (ii) exposures classified as having specific impairment after individual impairment assessment.

The exposures classified as not having impairment relate to (i) all exposures that do not show signs of significant deterioration in credit risk - exposures classified in Stage 1; (ii) exposures that, showing signs of significant deterioration in credit risk, have no objective evidence of loss or specific impairment after an individual assessment of impairment.

The following table presents the assets that are impaired or overdue but not impaired, split by their respective maturity or ageing (when overdue):

(in thousands of Euros)

	31.12.2021					
	Securities Portfolio - debt instruments		Deposits with and loans and advances to banks		Loans and advances to customers	
	Overdue but not impaired	Impaired	Overdue but not impaired	Impaired	Overdue but not impaired	Impaired
Overdue						
Up to 3 months	-	-	-	-	6 879	16 132
From 3 months to 1 year	-	210 598	-	-	1 095	17 628
From 1 to 3 years	-	1 940	-	-	385	45 925
From 3 to 5 years	-	37 594	-	-	36	70 988
More than 5 years	-	84 825	-	-	27	142 392
	-	**334 957**	**-**	**-**	**8 422**	**293 065**
Due						
Up to 3 months	-	-	-	-	-	95 219
From 3 months to 1 year	-	-	-	-	-	201 267
From 1 to 3 years	-	-	-	-	-	246 010
From 3 to 5 years	-	-	-	-	-	137 820
More than 5 years	-	-	-	-	-	734 988
	-	**-**	**-**	**-**	**-**	**1 415 304**
	-	**334 957**	**-**	**-**	**8 422**	**1 708 369**

(in thousands of Euros)

	31.12.2020					
	Securities Portfolio - debt instruments		Deposits with and loans and advances to banks		Loans and advances to customers	
	Overdue but not impaired	Impaired	Overdue but not impaired	Impaired	Overdue but not impaired	Impaired
Overdue						
Up to 3 months	-	-	-	34 726	5 148	15 179
From 3 months to 1 year	-	15 126	-	-	912	56 905
From 1 to 3 years	-	10 330	-	-	153	91 301
From 3 to 5 years	-	34 444	-	-	23	231 222
More than 5 years	-	82 475	-	-	130	215 280
	-	**142 375**	**-**	**34 726**	**6 366**	**609 887**
Due						
Up to 3 months	-	-	-	-	-	37 231
From 3 months to 1 year	-	-	-	-	-	312 428
From 1 to 3 years	-	-	-	-	-	266 246
From 3 to 5 years	-	-	-	-	-	146 644
More than 5 years	-	-	-	279 412	-	758 216
	-	**-**	**-**	**279 412**	**-**	**1 520 765**
	-	**142 375**	**-**	**314 138**	**6 366**	**2 130 652**

The following table shows the assets that are impaired or overdue but not impaired, broken down by the respective impairment stage:

(in thousands of Euros)

	31.12.2021				31.12.2020			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Deposits with and loans and advances to banks	-	-	-	-	-	314 138	-	314 138
Securities at fair value through other comprehensive income	-	-	22 770	22 770	-	-	22 770	22 770
Securities at amortised cost	-	-	312 187	312 187	-	-	119 605	119 605
Loans and advances to customers	4 874	3 548	1 708 369	1 716 791	1 671	4 691	2 130 656	2 137 018
	4 874	**3 548**	**2 043 326**	**2 051 748**	**1 671**	**318 829**	**2 273 031**	**2 593 531**

Credit risk by rating grade

Regarding assets that are neither past due nor impaired, the distribution by rating grade is presented below. For the debt instruments, the rating assigned by the Rating Agencies is taken into account, for the credit to clients and cash and deposits with credit institutions, the internal rating and scoring models are used, that assign a risk rating, which is periodically reviewed. For the purposes of presenting the information, the ratings have been aggregated into five major risk groups, with the last group including the unrated exposures.

(in thousand of Euros)

	31.12.2021					
	Prime +High grade	Upper Medium Grade	Lower Medium grade	Non Investment Grade Speculative + Highly speculative	Others	Total
Deposits with and loans and advances to banks	625	26 580	57 521	78 598	289 560	452 884
Securities held for trading	-	-	-	-	114 465	114 465
Bonds issued by government and other public enti	-	-	-	-	*114 465*	*114 465*
Securities at fair value through profit/loss - mandatory	-	-	-	-	559 227	559 227
Bonds issued by other entities	-	-	-	-	*559 227*	*559 227*
Securities at fair value through other comprehensive incom	1 449 335	1 982 997	3 478 155	1 788	148 921	7 061 196
Bonds issued by government and other public enti	*988 890*	*1 934 969*	*2 713 682*	-	*47 526*	*5 685 067*
Bonds issued by other entities	*460 445*	*48 028*	*764 473*	*1 788*	*101 395*	*1 376 129*
Securities at amortised cost	10 631	157 161	417 707	258 867	1 981 912	2 826 278
Bonds issued by government and other public enti	-	-	-	-	*371 273*	*371 273*
Bonds issued by other entities	*10 631*	*157 161*	*417 707*	*258 867*	*1 610 639*	*2 455 005*
Loans and advances to customers	3 130 230	7 773 753	2 460 371	6 865 797	1 218 120	21 448 271

(in thousands of Euros)

	31.12.2020					
	Prime +High grade	Upper Medium Grade	Lower Medium grade	Non Investment Grade Speculative + Highly speculative	Others	Total
Deposits with and loans and advances to banks	1 096	22 063	9 434	29 657	208 983	271 233
Securities held for trading	-	-	267 016	-	-	267 016
Bonds issued by government and other public enti	-	-	*267 016*	-	-	*267 016*
Securities at fair value through profit/loss - mandatory	-	32 670	-	-	614 412	647 082
Bonds issued by other entities	-	*32 670*	-	-	*614 412*	*647 082*
Securities at fair value through other comprehensive incom	1 415 572	2 335 007	3 247 135	-	738 740	7 736 454
Bonds issued by government and other public enti	*966 035*	*2 322 904*	*2 863 559*	-	*253 967*	*6 406 465*
Bonds issued by other entities	*449 537*	*12 103*	*383 576*	-	*484 773*	*1 329 989*
Securities at amortised cost	-	51 608	140 510	37 958	2 727 661	2 957 737
Bonds issued by government and other public enti	-	-	-	-	*415 192*	*415 192*
Bonds issued by other entities	-	*51 608*	*140 510*	*37 958*	*2 312 469*	*2 542 545*
Loans and advances to customers	3 312 685	7 689 385	2 375 213	6 757 902	1 059 906	21 195 090

As at 31 December 2021 and 2020, the breakdown of gross credit exposure and impairment by segment was as follows:

(in thousands of Euros)

Segment	31.12.2021													
	Perfoming						Non-Perfoming						Total Credit	
	Performing or with a delay < 30 days		With a delay > 30 days		Total		Days of delay <= 90 days		Days of delay > 90 days		Total			
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	12 041 900	312 746	137 406	17 497	12 179 306	330 243	876 737	367 913	509 684	316 099	1 386 421	684 012	13 565 727	1 014 255
Mortgage loans	8 166 486	19 899	28 662	1 139	8 195 148	21 038	100 041	16 894	38 657	6 693	138 698	23 587	8 333 846	44 265
Consumer and other loans	1 070 498	23 262	8 499	1 539	1 078 997	24 801	153 151	136 809	33 341	15 267	186 492	152 076	1 265 489	176 877
Total	**21 278 884**	**355 907**	**174 567**	**20 175**	**21 453 451**	**376 082**	**1 129 929**	**521 616**	**581 682**	**338 059**	**1 711 611**	**859 675**	**23 165 062**	**1 235 397**

(in thousands of Euros)

Segment	31.12.2020													
	Perfoming						Non-Perfoming						Total Credit	
	Performing or with a delay < 30 days		With a delay > 30 days		Total		Days of delay <= 90 days		Days of delay > 90 days		Total			
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Corporate	11 964 412	326 906	7 196	645	11 971 608	327 551	942 985	478 871	808 614	541 270	1 751 599	1 020 141	13 723 207	1 347 692
Mortgage loans	8 164 517	13 813	51 700	1 408	8 216 217	15 221	89 546	13 967	88 783	23 673	178 329	37 640	8 394 546	52 861
Consumer and other loans	1 001 602	21 940	12 026	2 374	1 013 628	24 314	147 553	122 358	53 174	39 778	200 727	162 136	1 214 355	186 450
Total	**21 130 531**	**362 659**	**70 922**	**4 427**	**21 201 453**	**367 086**	**1 180 084**	**615 196**	**950 571**	**604 721**	**2 130 655**	**1 219 917**	**23 332 108**	**1 587 003**

As at 31 December 2021 and 2020, the details of the loan portfolio by segment and by reference year were as follows:

(in thousands of Euros)

Year of production	31.12.2021											
	Corporate			Mortgage loans			Consumer and other loans			Total		
	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment
2004 and prior	3 886	251 754	20 380	58 196	1 090 237	8 193	674 193	54 086	2	736 275	1 396 077	28 575
2005	663	44 858	4 602	4 826	179 557	1 516	9 622	6 466	269	15 111	230 881	6 387
2006	808	168 268	33 528	6 989	287 520	1 715	12 196	7 499	808	19 993	463 287	36 051
2007	1 039	268 896	47 712	10 832	433 898	3 331	23 227	9 766	526	35 098	712 560	51 569
2008	1 032	478 108	31 258	10 340	468 928	3 221	18 427	8 455	304	29 799	955 491	34 783
2009	822	192 832	19 262	8 099	400 808	2 351	10 777	16 420	9 222	19 698	610 060	30 835
2010	953	180 669	32 221	7 720	424 284	2 898	16 591	21 945	555	25 264	626 898	35 674
2011	968	183 065	47 648	4 146	191 270	1 121	18 055	13 257	381	23 169	387 592	49 150
2012	1 243	235 250	36 521	2 307	82 796	819	24 783	11 479	491	28 333	329 525	37 831
2013	1 587	419 132	86 678	2 686	127 725	1 503	22 115	19 703	1 815	26 388	566 560	89 996
2014	1 653	310 977	113 995	1 710	92 430	719	20 551	13 349	424	23 914	416 756	115 138
2015	2 457	607 522	106 205	2 633	159 906	803	26 067	110 583	96 719	31 157	878 011	203 727
2016	3 564	638 085	50 094	5 459	365 317	1 952	41 939	65 244	23 583	50 962	1 068 646	75 629
2017	6 104	863 002	55 074	8 457	662 614	3 706	47 247	79 283	7 392	100 343	1 604 899	66 172
2018	7 630	1 492 690	84 909	9 644	882 450	3 594	56 365	134 694	6 847	73 639	2 509 834	95 350
2019	9 113	2 399 569	147 112	9 886	955 084	3 493	62 443	218 276	11 720	81 442	3 572 929	162 325
2020	10 891	2 452 419	59 859	7 148	709 118	2 107	40 602	170 741	6 963	58 641	3 332 278	68 929
2021	12 497	2 378 631	37 197	7 262	819 904	1 583	58 848	304 243	8 856	78 607	3 502 778	47 636
Total	**66 910**	**13 565 727**	**1 014 255**	**168 340**	**8 333 846**	**44 625**	**1 184 048**	**1 265 489**	**176 877**	**1 457 833**	**23 165 062**	**1 235 757**

(in thousands of years)

Year of production	31.12.2020											
	Corporate			Mortgage loans			Consumer and other loans			Total		
	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment
2004 and prior	4 416	252 369	29 047	63 963	1 297 344	12 791	686 895	53 142	-	755 274	1 602 855	41 838
2005	790	66 092	6 232	5 189	201 280	2 323	10 356	7 100	405	16 335	274 472	8 960
2006	1 024	227 895	52 135	7 592	319 853	2 651	17 328	8 929	1 016	25 944	556 677	55 802
2007	1 266	307 258	46 033	11 598	486 328	5 232	24 909	11 885	1 485	37 773	805 471	52 750
2008	1 243	504 523	29 945	11 071	521 485	4 318	19 736	10 131	749	32 050	1 036 139	35 012
2009	958	281 183	40 351	8 830	450 829	4 066	11 761	17 890	8 860	21 549	749 902	53 277
2010	1 179	311 365	88 463	8 374	474 219	3 934	18 110	26 777	1 211	27 663	812 361	93 608
2011	1 178	214 435	48 528	4 671	216 298	2 138	20 701	16 279	1 099	26 550	447 012	51 765
2012	1 451	376 177	133 141	2 562	94 255	1 409	27 270	15 358	2 008	31 283	485 790	136 558
2013	1 980	504 129	116 773	2 969	147 105	1 513	24 607	21 864	9 555	29 556	673 098	127 841
2014	2 008	450 375	192 967	1 880	105 331	739	24 178	15 969	944	28 066	571 675	194 650
2015	3 301	717 339	134 254	2 888	180 326	786	29 146	115 587	90 414	35 335	1 013 252	225 454
2016	4 756	798 567	60 273	5 990	415 630	1 624	48 507	80 968	24 397	59 253	1 295 165	86 294
2017	7 737	1 104 321	64 773	9 280	748 225	3 022	55 051	113 733	10 949	100 343	1 966 279	78 744
2018	8 758	1 897 622	113 881	10 539	988 329	2 700	65 830	187 836	10 847	85 127	3 073 787	127 428
2019	10 234	2 737 975	135 476	10 483	1 021 066	2 348	73 340	287 740	14 862	94 057	4 046 781	152 686
2020	17 021	2 971 582	55 420	7 136	726 643	1 267	46 926	223 167	7 649	71 083	3 921 392	64 336
Total	**69 300**	**13 723 207**	**1 347 692**	**175 015**	**8 394 546**	**52 861**	**1 204 651**	**1 214 355**	**186 450**	**1 477 241**	**23 332 108**	**1 587 003**

The figures presented include, in addition to all new operations of the reference year, renewals, interventions and restructurings of operations originated in previous years, including the period prior to the setting up of novobanco.

39.3.6 – Collaterals

In order to mitigate credit risk, credit operations have associated guarantees, namely mortgages or pledges. The fair value of these guarantees is determined at the date of granting the credit and is periodically reassessed. Below is the gross value of the credits and the respective fair value of the collateral, limited to the value of the associated credit:

(in thousands of Euros)

	31.12.2021				31.12.2020			
	Credit Value	Impairment	Net Value	Fair Value of Collateral	Credit Value	Impairment	Net Value	Fair Value of Collateral
Mortgage Loans								
Mortgages	8 109 060	(42 816)	8 066 244	8 100 941	8 202 521	(47 784)	8 154 737	8 189 574
Pledges	161 599	(286)	161 313	155 741	108 122	(152)	107 970	107 653
Not collaterized	63 186	(1 523)	61 663	-	83 903	(4 925)	78 978	-
	8 333 845	**(44 625)**	**8 289 220**	**8 256 682**	**8 394 546**	**(52 861)**	**8 341 685**	**8 297 227**
Other credit to individuals								
Mortgages	243 002	(4 264)	238 738	240 673	212 611	(7 105)	205 506	210 025
Pledges	213 452	(119 813)	93 639	98 804	224 402	(122 772)	101 630	108 797
Not collaterized	809 035	(52 800)	756 235	-	777 342	(56 573)	720 769	-
	1 265 489	**(176 877)**	**1 088 612**	**339 477**	**1 214 355**	**(186 450)**	**1 027 905**	**318 822**
Corporate Loans								
Mortgages	3 485 173	(350 183)	3 134 990	3 126 828	3 574 775	(552 283)	3 022 492	3 093 988
Pledges	2 029 706	(160 203)	1 869 503	737 027	2 189 282	(284 388)	1 904 894	816 102
Not collaterized	8 050 849	(503 869)	7 546 980	-	7 959 150	(511 021)	7 448 129	-
	13 565 728	**(1 014 255)**	**12 551 473**	**3 863 855**	**13 723 207**	**(1 347 692)**	**12 375 515**	**3 910 090**
Total	**23 165 062**	**(1 235 757)**	**21 929 305**	**12 460 014**	**23 332 108**	**(1 587 003)**	**21 745 105**	**12 526 139**

The difference between the value of the credit and the fair value of the collateral represents the total credit exposure that exceeds the value of the collateral, this value not being impacted by collaterals with a fair value higher than the credit to which they are associated.

The details of the collateral – mortgages are presented as follows:

(in tousands of Euros)

31.12.2021								
Collateral Intervals [a]	Mortgage Loans		Other Private Loans		Corporate Loans		Total	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
<0,5M€	162 672	7 875 489	5 625	227 443	10 326	466 686	178 623	8 569 618
>= 0,5M€ e <1,0M€	264	161 929	14	6 039	1 935	252 393	2 213	420 361
>= 1,0M€ e <5,0M€	47	63 523	3	7 191	18 518	794 583	18 568	865 297
>= 5,0M€ e <10,0M€	-	-	-	-	13 225	460 762	13 225	460 762
>= 10,0M€ e <20,0M€	-	-	-	-	2 241	530 515	2 241	530 515
>= 20,0M€ e <50,0M€	-	-	-	-	155	451 567	155	451 567
>=50M€	-	-	-	-	1 565	170 322	1 565	170 322
	162 983	**8 100 941**	**5 642**	**240 673**	**47 965**	**3 126 828**	**216 590**	**11 468 442**

[a] The allocation per intervals was made based on the total value of collateral per credit contract

(in tousands of Euros)

Collateral Intervals [a]	31.12.2020							
	Mortgage Loans		Other Private Loans		Corporate Loans		Total	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
<0,5M€	169 495	7 996 840	4 920	194 590	8 919	481 531	183 334	8 672 961
>= 0,5M€ e <1,0M€	248	146 377	26	8 552	2 173	259 748	2 447	414 677
>= 1,0M€ e <5,0M€	36	46 357	3	6 883	7 509	830 667	7 548	883 907
>= 5,0M€ e <10,0M€	-	-	-	-	5 979	401 084	5 979	401 084
>= 10,0M€ e <20,0M€	-	-	-	-	4 014	477 539	4 014	477 539
>= 20,0M€ e <50,0M€	-	-	-	-	170	471 926	170	471 926
>=50M€	-	-	-	-	1 566	171 493	1 566	171 493
	169 779	**8 189 574**	**4 949**	**210 025**	**30 330**	**3 093 988**	**205 058**	**11 493 587**

[a] The allocation per intervals was made based on the total value of collateral per credit contract

The values of mortgages collateral, presented above, represent the maximum coverage value of the covered assets, that is, that compete up to the gross value of the individual credits covered.

In assessing the risk of an operation or set of operations, the elements of credit risk mitigation associated with them are taken into account, in accordance with internal rules and procedures.

The relevant collaterals are essentially the following:

- Real estate, where the value considered is the correspondent to the last available valuation;
- Financial pledges, where the value considered corresponds to the quotation on the last day of the month, in the case of being a listed security, or the value of the pledge, in the case of being cash.

The acceptance of collateral as a guarantee for credit operations refers to the need to define and implement risk mitigation techniques to which these collaterals are exposed. Thus, and as an approach to this matter, the Bank stipulated a set of procedures applicable to collateral (namely financial and real estate), which cover, among others, the volatility of the collateral value, its liquidity and also an indication as to the recovery rates associated with each type of collateral.

The internal rules on credit powers thus have a specific chapter on this point, "Acceptance of collateral - techniques for mitigating the risks to which collateral is exposed, namely liquidity and volatility risks".

The revaluation process for real estate is performed by independent valuation experts registered in CMVM, following the methodologies as described in Note 7.6.

39.3.7 - Credit risk concentration

The analysis of risk exposure by sector of activity, as at 31 December 2021 and 2020, is presented as follows:

(in thousands of Euros)

	31.12.2021											
	Loans and advances to customers		Financial assets held for trading	Derivatives for trading	Financial assets at fair value through profit or loss -mandatory	Derivatives held for risk management purposes	Financial assets at fair value through other comprehensive income		Financial assets at amortised cost		Guarantees and endorsements provided	
	Gross amount	Impairment					Gross amount	Impairment	Gross amount	Impairment	Gross amount	Impairment
Agriculture, Forestry and Fishery	311 832	(8 492)	-	397	-	-	29 007	(14)	20 249	(45)	11 175	(6 318)
Mining	40 882	(333)	-	-	-	-	14 189	(13)	19 391	(4)	5 841	(183)
Food, Beverages and Tobacco	507 539	(14 190)	-	7 233	-	-	-	-	75 391	(195)	49 419	(319)
Textiles and Clothing	366 985	(13 791)	-	290	-	-	-	-	4 298	(2)	7 450	(741)
Leather and Shoes	79 044	(728)	-	5	-	-	-	-	1 501	(6)	1 363	(122)
Wood and Cork	108 090	(2 866)	-	500	-	-	-	-	2 199	(12)	7 322	(259)
Paper and Printing Industry	148 885	(10 071)	-	96	-	-	-	-	1 497	(4)	2 150	(18)
Refining of Petroleum	11 459	(20)	-	-	-	-	-	-	40 793	(22)	4 022	(1)
Chemicals and Rubber	337 394	(5 155)	-	271	-	-	19 410	(13)	133 694	(123)	18 453	(80)
Non-metallic Minerals	166 695	(3 112)	-	-	-	-	-	-	33 754	(153)	15 122	(297)
Metallurgical Industries and Metallic Products	389 961	(11 905)	-	370	-	-	16 235	(11)	1 299	(62)	31 575	(456)
Production of Machinery, Equipment and Elec	170 624	(9 123)	-	159	-	-	66 078	(49)	48 010	(24)	20 425	(2 248)
Production of Transport Material	118 847	(3 514)	-	43	-	-	-	-	15 046	(8)	10 625	(526)
Other Transforming Industries	140 459	(10 598)	-	-	-	-	-	-	4 983	(20)	19 208	(2 821)
Electricity, Gas and Water	293 197	(3 320)	-	17 062	-	-	53 579	(41)	113 203	(3 988)	33 018	(687)
Construction and Public Works	1 288 788	(134 972)	-	75 005	-	-	-	-	196 417	(94 332)	667 673	(37 863)
Wholesale and Retail Trade	1 366 114	(40 405)	-	765	-	-	40 669	(29)	49 398	(53)	200 010	(3 401)
Tourism	1 029 948	(96 443)	-	191	-	-	118	-	-	-	51 565	(1 024)
Transport and Communication	861 457	(51 305)	-	49 111	-	-	96 999	(61)	42 850	(178)	347 343	(2 008)
Financial Activities	483 518	(44 807)	-	101 455	2 133 630	20 150	909 281	(317)	1 045 549	(2 254)	151 950	(3 408)
Real Estate Activities	1 650 174	(144 160)	-	6 281	2 751	-	908	-	178 280	(33 430)	107 266	(5 075)
Services Provided to Companies	2 429 405	(238 573)	-	3 250	111 549	-	78 561	(45)	655 753	(111 600)	386 254	(10 111)
Public Administration and Services	571 501	(22 809)	114 465	-	-	-	5 685 319	(2 995)	371 273	(540)	19 965	(108)
Other activities of collective services	581 079	(75 218)	-	758	2 378	-	123 155	(80)	83 637	(717)	36 158	(959)
Mortgage Loans	8 333 846	(44 625)	-	-	-	-	-	-	-	-	-	-
Consumers Loans	1 265 489	(176 877)	-	-	-	-	-	-	-	-	-	-
Others	111 850	(68 345)	-	2	-	-	-	-	-	-	16 223	(306)
TOTAL	**23 165 062**	**(1 235 757)**	**114 465**	**263 244**	**2 250 308**	**20 150**	**7 133 508**	**(3 668)**	**3 138 465**	**(247 772)**	**2 221 575**	**(79 339)**

(in thousands of Euros)

	31.12.2020											
	Loans and advances to customers		Financial assets held for trading	Derivatives for trading	Financial assets at fair value through profit or loss -mandatory	Derivatives held for risk management purposes	Financial assets at fair value through other comprehensive income		Financial assets at amortised cost		Guarantees and endorsements provided	
	Gross amount	Impairment					Gross amount	Impairment	Gross amount	Impairment	Gross amount	Impairment
Agriculture, Forestry and Fishery	312 351	(10 816)	-	690	-	-	29 227	(13)	19 196	(26)	12 375	(517)
Mining	74 466	(18 596)	-	-	-	-	-	-	18 380	(4)	7 878	(101)
Food, Beverages and Tobacco	529 565	(16 540)	-	10 113	-	-	-	-	73 076	(2 277)	50 423	(413)
Textiles and Clothing	355 642	(15 805)	-	255	-	-	-	-	1 197	-	9 336	(4 545)
Leather and Shoes	72 598	(3 184)	-	-	-	-	-	-	-	-	2 074	(107)
Wood and Cork	116 210	(3 847)	-	236	-	-	-	-	12 512	(49)	6 546	(32)
Paper and Printing Industry	203 317	(18 887)	-	27	-	-	-	-	31 483	(48)	3 542	(30)
Refining of Petroleum	9 867	(14)	-	-	-	-	-	-	40 135	(20)	1 804	-
Chemicals and Rubber	322 420	(5 174)	-	1 576	-	-	19 597	(13)	131 643	(67)	18 684	(176)
Non-metallic Minerals	125 466	(7 753)	-	-	-	-	16 483	(14)	3 441	(4)	18 441	(365)
Metallurgical Industries and Metallic Products	359 607	(12 454)	-	281	-	-	16 533	(10)	1 498	(21)	42 634	(326)
Production of Machinery, Equipment and Elec	140 719	(9 055)	-	349	-	-	42 692	(26)	45 059	(22)	64 734	(1 126)
Production of Transport Material	118 807	(2 996)	-	78	-	-	-	-	15 039	(8)	12 254	(106)
Other Transforming Industries	140 305	(11 021)	-	-	-	-	-	-	4 987	(35)	18 390	(767)
Electricity, Gas and Water	335 699	(19 027)	-	22 809	-	-	33 978	(25)	138 950	(418)	100 480	(69)
Construction and Public Works	1 385 292	(165 139)	-	97 763	-	-	-	-	182 619	(60 754)	884 307	(41 058)
Wholesale and Retail Trade	1 351 020	(53 925)	-	3 741	-	-	41 174	(27)	43 686	(43)	199 766	(3 933)
Tourism	958 614	(80 109)	-	362	-	-	182	-	-	-	61 959	(6 338)
Transport and Communication	866 433	(53 225)	-	67 527	-	-	99 577	(63)	11 639	(16)	376 299	(9 104)
Financial Activities	485 232	(61 084)	-	163 852	2 261 955	13 606	745 465	(249)	1 039 119	(2 204)	133 904	(1 231)
Real Estate Activities	1 767 550	(220 722)	-	8 147	-	-	867	-	100 777	(26 181)	213 583	(15 437)
Services Provided to Companies	2 315 390	(319 495)	-	9 034	181 272	-	95 545	(53)	705 450	(109 627)	386 470	(4 216)
Public Administration and Services	582 452	(26 260)	267 016	-	-	-	6 406 747	(3 095)	415 192	(576)	23 746	(279)
Other activities of collective services	675 917	(142 699)	-	1 471	2 378	-	99 878	(58)	42 264	(60)	142 323	(1 109)
Mortgage Loans	8 394 546	(52 861)	-	-	-	-	-	-	-	-	35	-
Consumers Loans	1 214 355	(186 450)	-	-	-	-	-	-	-	-	6 584	(345)
Others	118 268	(69 865)	-	-	-	-	165 639	(14)	-	-	17 349	(175)
TOTAL	**23 332 108**	**(1 587 003)**	**267 016**	**388 311**	**2 445 605**	**13 606**	**7 813 584**	**(3 660)**	**3 077 342**	**(202 460)**	**2 815 920**	**(91 905)**

Exposure to public debt in peripheral Eurozone countries

As at 31 December 2021 and 2020, the Bank's exposure to the public debt of "peripheral" countries in the Eurozone is as follows:

(in thousands of Euros)

31.12.2021	Loans to customers	Securities held for trading	Derivative Instruments [1]	Securities at fair value through other comprehensive income	Securities at amortized cost	Total
Portugal	546 563	114 465	-	2 492 521	370 733	3 524 282
Spain	-	-	-	1 619 260	-	1 619 260
Ireland	-	-	-	171 608	-	171 608
Italy	-	-	-	148 601	-	148 601
	546 563	**114 465**	**-**	**4 431 990**	**370 733**	**5 463 751**

[1] Amounts presented by net: receivable / (payable)

(in thousands of Euros)

31.12.2020	Loans to customers	Securities held for trading	Derivative Instruments [1]	Securities at fair value through other comprehensive income	Securities at amortized cost	Total
Portugal	582 452	267 016	(16)	2 696 862	458 556	4 004 870
Spain	-	-	-	2 039 075	-	2 039 075
Ireland	-	-	-	237 844	-	237 844
Italy	-	-	-	52 044	-	52 044
	582 452	**267 016**	**(16)**	**5 025 825**	**458 556**	**6 333 833**

[1] Amounts presented by net: receivable / (payable)

Except for Loans and advances to customers, all the exposures presented above, except those relating to loans and advances to customers, are recorded in the Bank balance sheet at fair value, based on market quotations or, in the case derivatives, based on valuation techniques using observable market parameters / prices.

The detail on the exposure to securities is as follows:

(in thousands of Euros)

	31.12.2021					
	Nominal value	Quotation Value	Accrued interest	Book value	Impairment	Fair Value Reserves
Securities at fair value through other comprehensive income						
Portugal	**2 231 290**	**2 466 964**	**25 557**	**2 492 521**	**-**	**86 400**
Maturity up to 1 year	411 385	418 663	1 581	420 244	-	2 986
Maturity over 1 year	1 819 905	2 048 301	23 976	2 072 277	-	83 414
Spain	**1 529 200**	**1 594 096**	**25 164**	**1 619 260**	**-**	**46 283**
Maturity up to 1 year	755 000	758 261	17 334	775 595	-	1 729
Maturity over 1 year	774 200	835 835	7 830	843 665	-	44 554
Ireland	**153 600**	**170 350**	**1 258**	**171 608**	**-**	**13 457**
Maturity over 1 year	153 600	170 350	1 258	171 608	-	13 457
Italy	**148 561**	**148 286**	**315**	**148 601**	**-**	**215**
Maturity over 1 year	148 561	148 286	315	148 601	-	215
	4 062 651	**4 379 696**	**52 294**	**4 431 990**	**-**	**146 355**
Securities at amortized cost						
Portugal	**369 646**	**418 828**	**1 627**	**370 733**	**540**	**-**
Maturity over 1 year	369 646	418 828	1 627	370 733	540	-
	369 646	**418 828**	**1 627**	**370 733**	**540**	**-**
Securities held for trading						
Portugal	106 500	114 017	448	114 465	-	-
	106 500	**114 017**	**448**	**114 465**	**-**	**-**

(in thousands of Euros)

	31.12.2020					
	Nominal value	Quotation Value	Accrued interest	Book value	Impairment	Fair Value Reserves
Securities at fair value through other comprehensive income						
Portugal	**2 346 882**	**2 671 267**	**25 595**	**2 696 862**	**-**	**125 602**
Maturity up to 1 year	196 679	199 933	913	200 846	-	600
Maturity over 1 year	2 150 203	2 471 334	24 682	2 496 016	-	125 002
Spain	**1 894 750**	**2 012 871**	**26 204**	**2 039 075**	**-**	**75 509**
Maturity over 1 year	1 514 750	1 630 359	25 144	1 655 503	-	74 029
Ireland	**193 600**	**236 205**	**1 639**	**237 844**	**-**	**39 340**
Maturity over 1 year	193 600	236 205	1 639	237 844	-	39 340
Italy	**49 821**	**51 854**	**190**	**52 044**	**-**	**2 561**
Maturity over 1 year	49 821	51 854	190	52 044	-	2 561
	4 485 053	**4 972 197**	**53 628**	**5 025 825**	**-**	**243 012**
Securities at amortized cost						
Portugal	**413 438**	**472 552**	**1 754**	**458 556**	**576**	**-**
Maturity over 1 year	413 438	472 552	1 754	458 556	576	-
	413 438	**472 552**	**1 754**	**458 556**	**576**	**-**
Securities held for trading						
Portugal	213 500	264 033	2 983	267 016	-	-
	213 500	**264 033**	**2 983**	**267 016**	**-**	**-**

39.3.8 - Forborne modified loans

The Bank proceeds to the identification and register of restructured credit contracts due to the client's financial difficulties whenever there are changes to the terms and conditions of a contract in which the client has defaulted, that is, it is foreseeable that it will default, with a financial obligation. It is considered that there is a change to the terms and conditions of the contract when (i) there are contractual changes to the benefit of the customer, such as extending the term, introducing grace periods, reducing the rate or partial debt forgiveness; (ii) there is a contracting of a new credit operation to settle the existing debt (total or partial); or (iii) the new terms of the contract are more favorable than those applied to other customers with the same risk profile.

The cancellation of a restructured credit due to the client's financial difficulties can only occur after a minimum period of two years from the date of the restructuring, provided that the following conditions are cumulatively fulfilled: (i) regular payment of capital and interest; (ii) the customer has no capital or interest due; and (iii) there were no debt restructuring mechanisms by the client in that period.

The amounts of the restructured loans due to financial difficulties of the customer as of 31 December 2021 and 2020, are as follows:

(in thousands of Euros)

	31.12.2021	31.12.2020
Corporate	1 272 621	1 778 103
Mortgage loans	128 219	129 041
Consumer and other loans	137 276	146 359
Total	**1 538 116**	**2 053 503**

The details of the restructuring measures applied to restructured loans up to 31 December 2021 and 2020 are shown below:

(in thousands of Euros)

Solution	31.12.2021								
	Performing			Non - Performing			Total		
	No. Transaction	Exposure	Impairment	No. Transaction	Exposure	Impairment	No. Transaction	Exposure	Impairment
Principal or interest forgiveness	37	14 027	1 886	98	163 190	98 330	135	177 217	100 216
Assets received in partial settlement of loan	16	1 043	145	19	420	195	35	1 463	340
Capitalization of interest	35	6 754	346	100	79 248	46 515	135	86 002	46 861
New loan in total or partial payment of existing loan	1 307	170 750	12 664	422	121 570	57 096	1 729	292 320	69 760
Extension of repayment period	2 100	389 220	60 170	859	434 881	272 462	2 959	824 101	332 632
Introduction of grace period of principal or interest	335	27 700	783	80	55 167	25 157	415	82 867	25 940
Decrease in the interest rates	82	10 549	459	24	19 823	6 050	106	30 372	6 509
Changes of the lease payment plan	112	6 994	390	44	8 682	2 885	156	15 676	3 275
Changes in the interest paymen	3	2 017	228	2	1 997	1 694	5	4 014	1 922
Other	1 193	17 015	675	274	7 069	3 265	1 467	24 084	3 940
Total	**5 220**	**646 069**	**77 746**	**1 922**	**892 047**	**513 649**	**7 142**	**1 538 116**	**591 395**

(in thousands of Euros)

Solution	31.12.2020								
	Performing			Non - Performing			Total		
	No. Transaction	Exposure	Impairment	No. Transaction	Exposure	Impairment	No. Transaction	Exposure	Impairment
Principal or interest forgiveness	43	57 740	3 922	147	171 857	103 632	190	229 597	107 554
Assets received in partial settlement of loan	20	1 104	159	21	2 043	1 893	41	3 147	2 052
Capitalization of interest	43	12 951	995	181	123 462	74 085	224	136 413	75 080
New loan in total or partial payment of existing loan	1 453	87 691	10 024	549	228 736	145 098	2 002	316 427	155 122
Extension of repayment period	2 052	513 686	81 688	908	585 153	379 784	2 960	1 098 839	461 472
Introduction of grace period of principal or interest	332	33 497	1 504	106	60 007	28 009	438	93 504	29 513
Decrease in the interest rates	100	13 795	466	30	65 171	23 549	130	78 966	24 015
Changes of the lease payment plan	118	9 574	783	71	39 596	21 771	189	49 170	22 554
Changes in the interest paymen	4	15	1	2	2 769	2 380	6	2 784	2 381
Other	1 381	25 256	1 108	640	19 400	13 865	2 021	44 656	14 973
Total	**5 546**	**755 309**	**100 650**	**2 655**	**1 298 194**	**794 066**	**8 201**	**2 053 503**	**894 716**

39.4 - Market risk

Market Risk represents the potential loss resulting from an adverse change in the value of a financial instrument due to fluctuations in interest rates, foreign exchange rates, equity prices, commodity prices, volatility and credit spread.

Market risk management is integrated with the balance sheet management through the CALCO (Capital Asset and Liability Committee) structure, being this risk monitored by the Risk Committee.

The main measurement of market risk is the assessment of potential losses under adverse market conditions, for which the Value at Risk (VaR) methodology is used. The Bank uses the Monte Carlo simulation in the VaR model, based on a confidence level of 99% and an investment period of 10 days. Volatilities and correlations are historical, based on an observation period of one year. As a complement to VaR, stress testing scenarios have been developed, which allow for the evaluation of the impact of losses potentially higher than those considered by the VaR measurement.

(in thousands of Euros)

	Net Value				Net Value			
	December	Annual average	Maximum	Minimum	December	Annual average	Maximum	Minimum
Exchange risk	2 551	1 966	3 464	807	896	2 138	6 154	735
Interest rate risk	31 454	24 522	41 240	10 628	14 433	35 495	70 332	14 433
Shares and commodities	3	33	225	0	183	192	378	80
Volatility	0	66	422	0	37	139	523	37
Credit spread	719	1 329	4 146	579	2 652	5 051	12 960	1 640
Diversification effect	(4 399)	(3 017)	(7 032)	1 422	(2 420)	(5 290)	(14 746)	(1 144)
Total	**30 329**	**24 899**	**42 465**	**13 436**	**15 781**	**37 725**	**75 601**	**15 781**

novobanco has a value at risk (VaR) of approximately Euro 13,436 thousand (31 December 2020: Euro 15,781 thousand) for its trading positions. The decrease is mainly explained by the increase in the position in derivatives to hedge interest rate risk in the banking portfolio.

39.4.1 - Interest rate risk

In accordance with the recommendations of European Banking Authority presented in the document EBA/GL/2018/02, novobanco calculates the exposure to its balance sheet interest rate risk based on the prescribed shocks, classifying all notional amounts of assets, liabilities and off-balance sheet captions which are sensitive to interest rate and are not part of the trading portfolio, by re-pricing intervals.

(in thousands of Euros)

	31.12.2021						
	Eligible amounts	Not sensitive	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years
Loans to and deposits with banks	5 790 475	-	5 646 973	100 000	10 967	32 522	14
Loans and advances to customers	22 211 085	-	7 215 292	3 148 017	3 829 143	6 556 216	1 462 417
Securities	10 238 741	-	1 511 857	802 196	964 450	3 656 609	3 303 630
Other assets	399 920	-	399 920	-	-	-	-
Total			**14 774 042**	**4 050 213**	**4 804 560**	**10 245 347**	**4 766 061**
Deposits from banks	11 493 449	-	6 102 027	4 778 199	321 025	(569)	292 767
Due to customers	26 981 348	-	16 099 055	2 264 928	3 830 371	3 571 640	1 215 353
Debt securities issued	2 540 658	-	-	-	275 000	700 000	1 565 658
Other liabilities	257 274	-	118 484	28 687	54 587	55 517	-
Total			**22 319 566**	**7 071 814**	**4 480 983**	**4 326 588**	**3 073 778**
Balance sheet GAP (Assets - Liabilities)	(2 632 509)		(7 545 524)	(3 021 602)	323 577	5 918 758	1 692 282
Off-Balance sheet	(4 829)		2 867 467	813 050	(99 357)	(1 307 266)	(2 278 723)
Structural GAP	**(2 637 338)**		**(4 678 057)**	**(2 208 552)**	**224 220**	**4 611 492**	**(586 441)**
Accumulated GAP			**(4 678 057)**	**(6 886 609)**	**(6 662 389)**	**(2 050 897)**	**(2 637 338)**

(in thousands of Euros)

	31.12.2020						
	Eligible amounts	Not sensitive	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years
Loans to and deposits with banks	2 693 914	-	2 538 219	104 150	12 089	39 456	-
Loans and advances to customers	23 657 850	-	7 953 658	3 260 488	3 081 189	6 809 586	2 552 929
Securities	10 866 377	-	1 682 592	313 277	708 929	4 464 016	3 697 564
Other assets	1 254 599	-	656 287	598 312	-	-	-
Total			**12 830 756**	**4 276 227**	**3 802 207**	**11 313 058**	**6 250 493**
Deposits from banks	10 776 491	-	5 852 971	4 004 466	475 822	217 151	226 081
Due to customers	27 658 208	-	14 420 502	2 663 097	4 343 730	6 190 846	40 032
Debt securities issued	2 529 491	-	-	-	-	-	2 529 491
Other liabilities	236 632	-	114 681	25 299	47 614	49 037	1
Total			**20 388 154**	**6 692 862**	**4 867 166**	**6 457 034**	**2 795 605**
Balance sheet GAP (Assets - Liabilities)	(2 728 081)		(7 557 399)	(2 416 634)	(1 064 960)	4 856 024	3 454 888
Off-Balance sheet	17 178		2 581 791	1 543 874	(118 153)	(1 800 054)	(2 190 279)
Structural GAP	**(2 710 903)**		**(4 975 608)**	**(872 760)**	**(1 183 113)**	**3 055 969**	**1 264 608**
Accumulated GAP			**(4 975 608)**	**(5 848 368)**	**(7 031 481)**	**(3 975 512)**	**(2 710 903)**

Sensitivity analyzes are carried out for the interest rate risk of the banking portfolio based on the current difference in the interest rate mismatch discounted at current rates and the discounted value of the same cash flows, through scenarios of displacement of the parallel yield curves (displacements of +/- 200 bp) and non-parallel (short rate shock up / down, steepener / flattener shocks), according to the outliers tests defined by the EBA.

(in thousands of Euros)

	31.12.2021					
	Parallel increase of 200 pb	Parallel decrease of 200 pb	Short Rate Shock Up	Short Rate Shock Down	Steepener shock	Flattener shock
As at 31 December	75 258	49 546	(55 767)	68 719	87 821	(100 929)
Exercise average	8 175	64 196	(59 017)	70 148	52 295	(44 255)
Exercise maximum	75 258	81 887	(55 767)	77 666	87 821	(15 767)
Exercise minimum	(21 605)	49 546	(63 163)	65 671	34 359	(100 929)

(in thousands of Euros)

	31.12.2020					
	Parallel increase of 200 pb	Parallel decrease of 200 pb	Short Rate Shock Up	Short Rate Shock Down	Steepener shock	Flattener shock
As at 31 December	(119 060)	58 714	(79 332)	51 919	(5 075)	19 167
Exercise average	101 005	(14 077)	112 856	(17 148)	(86 325)	110 212
Exercise maximum	222 085	58 714	237 860	51 919	(5 075)	183 559
Exercise minimum	(119 060)	(61 170)	(79 332)	(87 651)	(177 904)	19 167

39.4.2 - IBOR Reform

As part of the application of Commission Regulation (EU) 2021/25, of 13 January 2021 - Reform of the reference interest rates, which led to the transition from EONIA to € STR, in the course of 2020, the Bank proceeded to change the discount curve of their positions in derivative financial instruments cleared in central counterparty (CCP) from EUR OIS to EUR € STR and from USD OIS to USD SOFR. Regarding bilateral derivatives, in the course of 2021, the Bank re-negotiated several CSA agreements to change to risk free rate curves, and in cases where no agreement was reached, the curves were changed to EUR €STR + 8.5 basis points. In accordance with the principle of implementation of the aforementioned regulation, that no substantial changes to the original objective of risk management or discontinuation of hedging relationships will occur, the Bank did not record significant impacts on retrospective and prospective effectiveness, taking into account that all assets and liabilities involved in hedging relationships were subject to the same change (hedged and hedged items). In relation to other financial instruments, taking into consideration the Bank's reduced exposure to instruments in currency instruments, there were no relevant impacts.

The following table presents the average interest rates for the Bank major financial asset and liability categories, as of 31 December 2021 and 2020, as well as the respective average balances and interest for the exercise:

(in thousands of Euros)

	31.12.2021			31.12.2020		
	Average balance of the period	Interest of the period	Average interest rate	Average balance of the period	Interest of the period	Average interest rate
Monetary assets	4 566 715	2 653	0.06%	2 964 259	17 085	0.57%
Loans and advances to customers	23 162 232	492 762	2.10%	23 007 206	517 579	2.22%
Securities and other	11 254 711	154 879	1.36%	11 859 535	168 766	1.40%
Financial assets and differentials	**38 983 658**	**650 294**	**1.65%**	**37 831 000**	**703 430**	**1.83%**
Monetary Liabilities	11 252 385	(66 125)	-0.58%	10 739 033	(12 781)	-0.12%
Due to customers	25 988 282	50 231	0.19%	25 233 793	69 990	0.27%
Differential liabilities	712 741	14 423	2.00%	965 587	9 851	1.01%
Financial liabilities and differentials	**38 983 658**	**69 210**	**0.18%**	**37 831 000**	**135 431**	**0.35%**
Net interest income		**581 084**	**1.47%**		**567 999**	**1.48%**

39.4.3 - Exchange rate risk

Regarding foreign exchange risk, the breakdown of assets and liabilities, by currency, as at 31 December 2021 and 2020, is analyzed as follows:

(in thousands of Euros)

		31.12.2021				31.12.2020			
		Spot Positions	Term positions	Other elements	Net Position	Spot Positions	Term positions	Other elements	Net Position
USD	UNITED STATES DOLLAR	(177 489)	169 546	(15)	(7 958)	(752 913)	779 774	99	26 960
GBP	GREAT BRITISH POUND	(42 549)	47 842	-	5 293	(67 061)	69 964	(2 067)	836
BRL	BRAZILIAN REAL	783	-	-	783	73 444	(72 362)	-	1 082
DKK	DANISH KRONE	(6 542)	6 885	-	343	(9 612)	9 804	-	192
JPY	JAPANESE YEN	(1 353)	2 310	-	957	(148)	-	2 067	1 919
CHF	SWISS FRANC	(13 303)	16 281	-	2 978	(8 657)	10 903	-	2 246
SEK	SWEDISH KRONE	19 751	(19 077)	-	674	19 523	(19 334)	-	189
NOK	NORWEGIAN KRONE	54 362	(54 035)	-	327	46 723	(46 086)	-	637
CAD	CANADIAN DOLLAR	(18 620)	21 502	-	2 882	(1 285)	3 518	-	2 233
ZAR	SOUTH AFRICAN RAND	1 128	(1 207)	-	(79)	(40)	(230)	-	(270)
AUD	AUSTRALIAN DOLLAR	10 216	(9 990)	-	226	5 002	(4 615)	-	387
VEB	VENEZUELAN BOLIVAR	2	-	-	2	1	-	-	1
MOP	MACAO PATACA	2 256	-	-	2 256	2 124	-	-	2 124
MAD	MOROCCAN DIRHAN	(2 996)	2 936	-	(60)	(3 081)	2 984	-	(97)
MXN	MEXICAN PESO	(14)	9	-	(5)	(198)	373	-	175
AOA	ANGOLAN KWANZA	(1)	-	-	(1)	8 781	-	-	8 781
PLN	POLISH ZLOTY	36 099	(35 643)	-	456	28 270	(29 125)	-	(855)
CZK	CZECH KORUNA	16 208	(17 041)	-	(833)	9 573	(9 979)	-	(406)
DZD	ALGERIAN DINAR	5 507	-	-	5 507	4 447	-	-	4 447
CNY	YUAN REN-MIN-BI	51 351	(50 975)	-	376	9 419	(9 487)	-	(68)
	OTHERS	(3 337)	2 334	-	(1 003)	(8 216)	(19 344)	-	(27 560)
		(68 541)	**81 677**	**(15)**	**13 121**	**(643 904)**	**666 758**	**99**	**22 953**

Note: assets / (liabilities)

39.5 - Liquidity risk

Liquidity risk is the current or future risk that arises from an institution's inability to meet its liabilities as they mature, without incurring substantial losses.

Liquidity risk can be divided into two types:

- Liquidity of assets (market liquidity risk) - consists in the impossibility of selling a certain type of asset due to the lack of liquidity in the market, which translates into the widening of the bid / offer spread or the application of a haircut to the market value;
- Financing (funding liquidity risk) - consists of the impossibility of financing the assets in the market and / or refinancing the debt that is maturing, in the terms and in the desired currency. This impossibility can be reflected through a strong increase in the cost of financing or the requirement for collateral to obtain funds. The difficulty of (re) financing can lead to the sale of assets, even if incurring significant losses. The risk of (re) financing must be minimized through an adequate diversification of funding sources and maturity terms.

Banks are subject to liquidity risk due to their maturity transformation business (long-term lenders and short-term depositors), so prudent liquidity risk management is therefore crucial.

As of 31 December 2021, the value of the asset portfolio eligible as collateral for rediscounting operations with the ECB, after haircuts, amounted to Euro 16.5 billion (31 December 2020: Euro 16.6 billion). This amount includes all the exposure to Portuguese sovereign debt, in the total amount of approximately Euro 2.5 billion.

During 2021, gross financing from the ECB increased by 974 million euros to a total of 8.0 billion euros (2020: increase in the amount of Euro 910 million for a total of Euro 7,0 billion).

The liquidity of novobanco is managed in a centralized manner, in the Headquarters, for the prudential consolidation perimeter, and the analysis and decision making made based on the mismatch reports, which allow, not only to identify negative mismatches but also to make a dynamic hedging of those mismatches. As of 31 December 2021, and 2020, the calculation of the liquid contractual deficit and the counterbalancing capacity was performed following the ITS (Implementing Technical Standards) rules:

(in thousands of Euros)

	31.12.2021						
	Total	until 7 days	from 7 days to 1 month	from 1 to 3 months	from 3 to 6 months	from 6m to 1 year	higher than1 year
OUTPUTS							
Liabilities arising from securities issued (if not treated as retail deposits)	710 947	-	-	-	-	22 054	688 893
Liabilities arising from secured loan operations and capital market operations	9 948 704	-	626 980	52 669	-	2 514 555	6 754 500
Behavioral exits resulting from deposits	29 286 247	459 384	316 628	213 461	216 116	575 321	27 505 337
Foreign exchange swaps and derivatives	520 853	5 940	45 222	376 528	43 099	25 734	24 330
Other outputs	478 049	-	-	-	11 515	33 814	432 720
Total Exits	**40 944 800**	**465 324**	**988 830**	**642 658**	**270 730**	**3 171 478**	**35 405 780**
Entries							
Guaranteed loan operations and operations associated with the capital market	172 139	-	-	-	-	40 991	131 148
Behavioral inflows resulting from loans and advances	30 327 148	5 180 565	52 796	175 110	316 874	420 764	24 181 039
Foreign exchange swaps and derivatives	675 752	7 826	40 850	376 467	61 089	39 413	150 107
Own portfolio securities to mature and Other entries	11 752 499	148 242	130 897	503 810	707 762	607 767	9 654 021
Total Entries	**42 927 538**	**5 336 633**	**224 543**	**1 055 387**	**1 085 725**	**1 108 935**	**34 116 315**
Net contractual deficit	1 982 737	4 871 309	(764 288)	412 728	814 995	(2 062 541)	(1 289 466)
Accumulated net contractual deficit	**-**	**4 871 309**	**4 107 021**	**4 519 749**	**5 334 744**	**3 272 203**	**1 982 737**
REBALANCE CAPACITY	*Stock* Inicial	até 7 dias	de 7 dias até 1 mês	de 1 a 3 meses	de 3 a 6 meses	de 6m a 1 ano	superior a 1 ano
Coins and banknotes	144 220						
Central bank mobilisable reserves	4 999 674	(4 999 674)					
Marketable and non-marketable assets eligible for central banks	7 178 648	-	432 159	(326 174)	(537 314)	(451 505)	(6 154 300)
Authorized and unused facilities received	-	(42 401)	(73 498)	(226 102)	(281 873)	1 314 154	(690 281)
Net change in rebalancing capacity	-	(5 042 075)	358 661	(552 276)	(819 187)	862 649	(6 844 581)
Accumulated rebalancing capacity	**12 322 542**	**7 280 467**	**7 639 128**	**7 086 852**	**6 267 665**	**7 130 314**	**285 733**

(in thousands of Euros)

	31.12.2020						
	Total	until 7 days	from 7 days to 1 month	from 1 to 3 months	from 3 to 6 months	from 6m to 1 year	higher than1 year
OUTPUTS							
Liabilities arising from securities issued (if not treated as retail deposits)	105 505	-	-	-	-	-	105 505
Liabilities arising from secured loan operations and capital market operations	9 161 995	68 874	106 104	53 504	150 000	264 458	8 519 055
Behavioral exits resulting from deposits	30 099 947	417 595	353 268	311 225	236 880	583 946	28 197 033
Foreign exchange swaps and derivatives	581 986	110 144	144 781	240 424	32 623	34 865	19 149
Other outputs	550 075	-	-	140 000	11 515	-	398 560
Total Exits	**40 499 508**	**596 613**	**604 153**	**745 153**	**431 018**	**883 269**	**37 239 302**
Entries							
Guaranteed loan operations and operations associated with the capital market	203 306	60 917	-	-	-	-	142 389
Behavioral inflows resulting from loans and advances	26 056 009	73 680	53 648	189 806	319 315	435 854	24 983 706
Foreign exchange swaps and derivatives	854 599	103 393	145 076	243 899	48 523	71 288	242 420
Own portfolio securities to mature and Other entries	13 351 148	103 580	154 527	376 513	802 895	898 664	11 014 969
Total Entries	**40 465 062**	**341 570**	**353 251**	**810 218**	**1 170 733**	**1 405 806**	**36 383 484**
Net contractual deficit	(34 446)	(255 043)	(250 902)	65 065	739 715	522 537	(855 818)
Accumulated net contractual deficit	**-**	**(255 043)**	**(505 945)**	**(440 880)**	**298 835**	**821 372**	**(34 446)**
REBALANCE CAPACITY	*Stock* Inicial	até 7 dias	de 7 dias até 1 mês	de 1 a 3 meses	de 3 a 6 meses	de 6m a 1 ano	superior a 1 ano
Coins and banknotes	142 325						
Central bank mobilisable reserves	2 030 915	(2 030 915)					
Marketable and non-marketable assets eligible for central banks	7 945 203	67 249	106 994	(123 762)	(60 112)	(587 185)	(7 208 003)
Authorized and unused facilities received	-	(29 275)	(55 212)	(199 759)	(350 461)	(288 680)	923 388
Net change in rebalancing capacity	-	(1 992 941)	51 782	(323 521)	(410 573)	(875 865)	(6 284 615)
Accumulated rebalancing capacity	**10 118 443**	**8 125 502**	**8 177 284**	**7 853 763**	**7 443 190**	**6 567 325**	**282 710**

As of 31 December 2020, there was an accumulated 1-year net contractual surplus of Euro 821 million (considering in Entries the cash in Central Banks, deducted from the cash reserve requirements), having shifted at the end of 2021 to an accumulated 1-year net contractual deficit of Euro 3,272 million.

The 1-year counterbalancing capacity the end of 2021 was Euro 7,130 million, Euro 563 million more than the figure recorded at the end of 2020 (Euro 6,567 million).

In order to anticipate possible negative impacts, internal liquidity stress scenarios representative of the types of crisis that may occur are carried out, based on idiosyncratic scenarios (characterized by a loss of confidence in the Bank), and market scenarios.

In addition, and given the importance of liquidity risk management, the regulatory legislation includes a liquidity coverage ratio (Liquidity Coverage Ratio - LCR) and a stable financing ratio (Net Stable Funding Ratio - NSFR). The LCR aims to promote banks' resilience to short-term liquidity risk, ensuring that they hold high-quality liquid assets, sufficient to survive a severe stress scenario, for a period of 30 days, while the NSFR aims to ensure that Banks maintain stable financing for their assets and off-balance sheet operations, for a period of one year.

In accordance with current regulatory legislation, the Bank is obliged to comply with a minimum limit of 100% in the LCR. The Bank continues to follow regulatory changes in order to comply with all obligations, namely the implementation of the NSFR and its limit.

39.6 - Operational risk

Operational risk generally translates into the probability of the occurrence of events with negative impacts, in the results or in the capital, resulting from the inadequacy or deficiency of procedures and information systems, the behavior of people or motivated by external events, including legal risks. Thus, operational risk is understood as the calculation of the following risks: operational, information systems, compliance and reputation.

For the management of operational risk, a system was developed and implemented to ensure the uniformity, systematization and recurrence of the activities for the identification, monitoring, control and mitigation of this risk. This system is supported by an organizational structure, integrated in the Global Risk Department exclusively dedicated to this task, as well as by Operational Risk Management Representatives designated by each of the departments, branches and subsidiaries considered relevant, which are responsible for complying with the procedures. and the day-to-day management of this Risk in its areas of competence.

39.7 - Capital Management and Solvency Ratio

The main objective of the Bank's capital management is to ensure compliance with the Bank's strategic objectives in terms of capital adequacy, respecting and enforcing the requirements for calculating risk-weighted assets and own funds and ensuring compliance with the levels of solvency and leverage defined by the supervisory entities, in particular by the European Central Bank (ECB) – the entity directly responsible for the supervision of novobanco - and by the Bank of Portugal, and internally stipulated risk appetite for capital metrics.

The definition of the strategy for capital adequacy management rests with the Executive Board of Directors and is integrated in the global definition of the novobanco objectives.

The capital ratios of novobanco are calculated based on the rules defined in Directive 2013/36/EU and Regulation (EU) no. 575/2013 (CRR) that define the criteria for the access to the credit institution and investment company activity and determine the prudential requirements to be observed by those same entities, in particular to the calculation of the ratios mentioned above.

novobanco is authorized to apply the Internal Ratings-Based Approach (IRB) for the calculation of risk weighted assets by credit risk. In particular, the IRB method is applied to the exposure classes of institutions, corporate and retail of novobanco. The equity' risk classes, the positions taken in the form of securitization, the positions taken in the form of participation units in investment funds, and the elements that are not credit obligations are always handled by the IRB method regardless of the Bank entities in which the respective exposures are recorded. The standard method is used in the determination of risk weighted assets by market and operational risks.

The regulatory capital components considered in the determination of solvency ratios are divided into own funds of level 1 (or Common Equity Tier I or CET I), additional own funds of level 1 (additional Tier I) which combined with the CET I constitute the own funds of level I (Tier I), and own funds of level 2 (or Tier II) which added to the Tier I represent the total own funds.

The total own funds of novobanco are composed by elements of CET I and Tier II.

The summary of own funds, risk weighted assets and capital ratios capital of novobanco as of 31 December 2021 and 2020 are presented in the following table:

(in millions of Euros)

		31.12.2021 [4]	31.12.2020 [1]
Realised ordinary share capital, issue premiums and own shares		6 055	5 900
Reserves and Retained earnings		(3 481)	(1 773)
Net income for the year attributable to shareholders of the Bank		226	(1 374)
A - Equity (prudential perspective)		**2 799**	**2 753**
Adjustments of additional valuation		(10)	(12)
Transitional period to IFRS9		229	349
Goodwill and other intangibles		(68)	(48)
Insufficiency of provisions given the expected losses		(9)	(60)
Deferred tax assets and shareholdings in financial companies		(198)	(98)
Others [2]		(321)	(267)
B - Regulatory adjustments to equity		**(377)**	**(137)**
C - Own principal funds level 1 - CET I (A+B)		**2 422**	**2 616**
D - Additional own funds Level 1 - Additional Tier 1		**-**	**-**
E - Level 1 own funds - Tier I (C+D)		**2 422**	**2 616**
Subordinated liabilities elegeible for Tier II		399	399
Other elements elegible for Tier II		108	115
Regulatory adjustments for Tier II		-	-
F - Level 2 own funds - Tier II		**506**	**514**
G - Eligible own funds (E+F)		**2 928**	**3 130**
Credit risk		22 032	24 246
Market risk		1 205	1 277
Operational risk		1 620	1 539
H - Risk Weighted Assets		**24 857**	**27 063**
Solvability ratio			
CET I ratio	**(C/H)**	**9.7%**	**9.7%**
Tier I ratio	**(E/H)**	**9.7%**	**9.7%**
Solvability ratio	**(G/H)**	**11.8%**	**11.6%**
Leverage ratio [3]		**5.2%**	**5.4%**

[1] Values restated with reference to the year 2020.

[2] Since the end of 2020 it encompasses the adjustments to the CCA receivable, reflected at the level of reserves, and not received from the Resolution Fund.

[3] The leverage ratio results from dividing Tier 1 by the exposure measure determined under the CRR.

[4] Provisional values

NOTE 40 –INSURANCE AND REINSURANCE MEDIATION SERVICES

As at 31 December 2021 and 2020, the compensation arising from the provision of insurance or reinsurance mediation services has the following composition:

(in thousands of Euros)

	31.12.2021	31.12.2020
Life Branch		
Unit Link and other life commissions	1 828	1 832
Credit protection insurance (life insurance)	823	655
Traditional products	14 529	15 176
	17 180	**17 663**
Non-Life Branch		
Private insurance	7 442	6 677
Corporate Insurance	178	193
Credit protection insurance (non-life part)	2 249	905
	9 869	**7 775**
	27 049	**25 438**

Note: the yields shown are net of periodization

The Bank does not collect insurance premiums on behalf of the Insurers, nor does it handle funds related to insurance contracts. Therefore, there are no other assets, liabilities, income or charges to be reported relating to the insurance mediation activity carried out by the Bank, other than those already disclosed.

NOTE 41 – SUBSEQUENT EVENTS

As provided for in the agreements between the Resolution Fund and the shareholder Lone Star, on February 24, 2022, the Resolution Fund transferred ownership of shares to Nani Holdings as a result of the capital increase by conversion of the conversion rights so that Nani Holdings' shareholding in the novobanco would remain at 75%, and the Resolution Fund's shareholding was diluted to 23.44%.

On February 24, 2022, the Russian Federation began a military operation on the territory of Ukraine, which triggered a war that currently involves three countries (Russia, Ukraine and Belarus). In response various sanctions were approved with the aim of impacting on the Russian economy, and also that of Belarus, by a group of countries, including NATO countries, the European Union and others. There is a possibility that novobanco could be impacted by losses in the assets exposed to those countries as a result of those sanctions, as well as the destruction that is taking place in Ukraine as a result of the war. The exposure of novobanco as at 31 December 2021, by type of asset and country is presented as follows:

(in thousands of Euros)

	31.12.2021			
	Russian Federation	Belarus	Ukraine	Total
Loans and advances to customers	5 049	209	938	6196
Securities	43 140	-	-	43 140
Bonds recorded at fair value through other comprehensive income	*22 744*	-	-	22 744
Bonds recorded at amortised cost	*20 396*	-	-	20 396
Total Assets	**48 189**	**209**	**938**	**49 336**

Annex

novobanco

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(Translation from the original document in the Portuguese language. The opinion on European Single Electronic Format is only applicable in the Portuguese Version. In case of doubt, the Portuguese version prevails)

Statutory and Auditor's Report

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the accompanying consolidated financial statements of Novo Banco S.A. (the Group), which comprise the Consolidated Balance Sheet as at 31 December 2021 (showing a total of 44,618,515 thousand euros and a total equity of 3,149,471 thousand euros, including a net profit for the year of 184,504 thousand euros), and the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity and the Consolidated Cash Flow Statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of the consolidated financial position of Novo Banco, S.A. as at 31 December 2021, and of its financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as endorsed by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and other technical and ethical standards and guidelines as issued by the Institute of Statutory Auditors. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section below. We are independent of the entities comprising the Group in accordance with the law and we have fulfilled other ethical requirements in accordance with the Institute of Statutory Auditors´ code of ethics.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matters in the current year audit are the following:

1. Impairment for loans and advances to customers

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
The caption Loans and advances to customers includes an accumulated impairment amount of 1,247,917 thousand of euros ("K€"), with an impairment loss of 149,375 K€ recorded in the period on Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss. The details of the impairment for loans and advances to customers, the related accounting policies, methodologies, definitions and assumptions are disclosed in the notes to the consolidated financial statements (Notes 7.16, 8.1, 20, 24 and 44.3).	Our audit approach included the execution of the following procedures: ► obtaining the understanding, evaluating the design and testing the operational effectiveness of the existing internal control procedures in the process of quantification of impairment losses for loans and advances to customers; ► performing analytical procedures on the evolution of the balance of the impairment for loans and advances to customers, comparing it with last year and with the expectations considering the changes in the loan portfolio;

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
In order to calculate this estimate on the impairment loss of the loans and advances to customers, management made judgments such as the business model assessment, the evaluation of significant increase in credit risk, the classification as default, the definition of groups of financial assets with similar credit risk characteristics and the use of models and assumptions. For relevant exposures on an individual approach, the impairment is determined based on the judgment from Group specialists on the evaluation of credit risk. In addition to the complexity of the models, its use requires the treatment of a significant volume of data, which raises issues on its quality and availability. The effects of the Covid-19 pandemic may not be completely resolved nor fully martialized, with their full impact still uncertain. As so, the impairment for loans and advances to customers has to take into consideration an eventual decrease in the credit quality of the assets in the event of the risk materializing. Given the degree of subjectivity and complexity involved, the use of alternative approaches, models or assumptions may have a material impact on the value of the estimated impairment, which makes we consider this topic as key auditing matter.	► selecting a sample of customers individually assessed for impairment to evaluate the assumptions used by management in quantifying impairment. This analysis included the information containing business models, the financial situation of the debtors and the collateral appraisal reports. Inquiring of Group experts in order to obtain an understanding of the recovery strategy defined and the assumptions used; ► analyzing the impacts estimated by the Group to reflect the end of the moratoria and the possible emergence of defaults in this population of debtors; ► analyzing the documents formalizing the relevant sale operations of loans and advances to customers and assessed the impact in the financial statements; ► obtaining the understanding and evaluating the design of the model used to calculate the expected loss, testing the calculation, comparing the information used in the model with the source information, through the reconciliations prepared by the Group staff, evaluating the assumptions used to fill gaps in data, comparing the parameters used with the results of the estimation models and comparing the results with the values in the financial statements; ► evaluating the reasonableness of the parameters used in the calculation of impairment, highlighting the following procedures: i) understanding the methodology formalized and adopted by management and comparing with the one effectively used; ii) evaluating the changes to models used by the Group to determine the parameters used in the impairment calculation; iii) on a sample basis, comparing the data used in the calculation of the risk parameters with source information, including testing the stage classification; iv) inquiries to management's experts responsible for models and inspection of reports from internal audit and regulators; and v) inspection of the reports with the results of the operational assessment of the model (back-testing); ► testing the reasonableness of the overlays, in particular the ones to respond to the additional judgmental areas resulting from the end of the moratoria and assessing the governance associated with these overlays; ► reading the minutes of the Credit Impairment Committees and of the correspondence with the Resolution Fund; and ► analyzing the disclosures included in the explanatory notes to the consolidated financial statements, based on the requirements of international financial reporting standards and accounting records.

2. Valuation of restructuring funds

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
As disclosed in the Notes to the consolidated financial statements (Note 24), on 31 December 2021, the Group held financial assets mandatorily at fair value through profit or loss in the amount of 799,592 K€, of which €427,886 K€ and 316,746 K€ refer to, respectively, shares and other securities with variable income. Part of these financial assets, in the amount of 586,450 K€, is measured at fair value using valuation methodologies that include parameters not observable in the market (level 3) and includes the participation of the Group in restructuring funds (note 42). The valuation of these financial instruments is an estimation of fair value performed by management which uses internal models and parameters not observable in the market. During 2020, the management, with the assistance of external experts, performed an independent valuation of these financial instruments, which was reviewed in 2021 based on observed market evolution on similar markets. Management considers that this reviewed valuation corresponds to the best estimate of fair value as of 31 December 2021. The consideration of this issue as a key audit matter was based on its materiality for the financial statements and the fact that the use of different valuation techniques or assumptions could lead to different estimates of fair value.	Our audit approach included the execution of the following procedures: ► obtaining the understanding of the existing internal control procedures on the valuation of financial instruments process; ► performing analytical procedures on the evolution of the value of these financial instruments, comparing the values with last year and with the expectations formed, which included understanding the variations occurred. Comparing with the valuation of other market participants as disclosed in public available information; ► analyzing the proposals to transact these assets and comparing with the book value; ► analyzing the financial statements of the funds and testing the evolution comparing with the values considered by the Group; ► testing the review of value performed and analyzing the assumptions used; and ► analyzing the disclosures included in the explanatory notes to the consolidated financial statements based on the requirements of international financial reporting standards and in the accounting records.

3. Measurement of real estate obtained through credit foreclosure

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
The captions Investment properties and Other assets, include real estate assets of 625,187 K€ and 198,628 K€, respectively. The accounting policies and the details of these assets are disclosed in the notes to the financial statements (notes 7.18, 7.19, 8.6, 28, 31 and 42). As disclosed in note 7.18 to the consolidated financial statements, the Other assets include real estate that were essentially obtained by credit foreclosure and for which the Group has implemented a plan pursuant to its sale. These real estate assets are valued at the lower of net book value and the fair value less cost to sell. The fair value is based on appraisals prepared by experts hired by management. The notes to the consolidated financial statements (note 28) disclose the detail and the movement of investment properties, which are held by investment funds and which are rented to third parties for obtaining income or held to generate capital gains. The real estate assets in this category are valued at fair value which is calculated by experts registered at CMVM contracted by the management. The fair value results from an estimation process by the management that relies on judgments and assumptions and is embodied in an evaluation carried out by contracted independent experts. The assumptions considered include the best use that can be given to the asset, what could be considered as a comparable transaction or the potential yield that can be obtained. The consideration of this topic as a key audit matter is based on its materiality to the financial statements and the fact that the use of different valuation techniques or assumptions could lead to different estimates of fair value.	Our audit approach included the execution of the following procedures: ► obtaining the understanding of the existing internal control procedures in the process of valuation of the real estate assets received by credit recovery; ► performing analytical procedures on the value of the assets included in the Investment properties and Other assets, compared with last year and with the expectation formed, which include the understanding of the variations that have occurred and identification of changes in the assumptions and methodologies; ► for a sample of real estate assets, testing the reasonableness of the methodologies and assumptions used by management's external experts registered in CMVM. For these assets, inspection of the eventual promissory sale contracts and the certificate of land register; ► inspecting the real estate sale contracts and testing the derecognition requirements and the calculation of gains and losses recorded; ► analyzing the counterparties of the most significant sales in order to assess eventual constraints to an arm's length transaction; ► for the most significant transactions with real estate assets in the scope of the contingent capital agreement, obtaining the Resolution Fund approvals; ► inquiries to the management experts on the assumptions used for a sample of assets and read the minutes of the executive board. ► Inquiring the management about potential sale operations and, when applicable, examining the offers received on the assets and comparing with the fair value calculated by the management; and ► analyzing the disclosures included in the explanatory notes to the consolidated financial statements, based on the requirements of international financial reporting standards and accounting records.

Statutory and Auditor's Report
(Translation from the original document in Portuguese language
In case of doubt, the Portuguese version prevails)
31 December 2021

4. Provisions and disclosure of contingent liabilities

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
As disclosed in note 34 to the consolidated financial statements, there is a contingency amounting to 115,800 K€ for which a provision was registered, additionally, the notes to the consolidated financial statements disclose the contingent liabilities (Note 38) that may represent a possible obligation to the Group resulting from past events. The occurrence of these obligations is dependent on one or more future events that are not entirely under the control of the Group. The accounting policies for the recognition of provision or disclosure of contingent liabilities are described in note 7.28 and the main estimates and assumptions in note 8.5. The main contingent liabilities arise from various situations, most notably: ► notwithstanding the clarifications and existing neutralization guarantees, potential adjustments that may occur to "excluded liabilities" payable by Banco Espírito Santo, S.A. ("BES") and that have not been transferred to the Group; ► the existence of litigation resulting from the resolution measure applied to BES, which, in	Our audit approach included the execution of the following procedures: ► obtaining an understanding of the existing internal control procedures in the process of disclosure of contingent liabilities; ► reading the minutes of Novo Banco's management bodies, the correspondence with regulators and with the Resolution Fund; ► analyzing the responses to external confirmations from external legal experts of the Group and inquiries to the management and to the legal and tax experts on the contingent liabilities of the Group; ► inspecting the documentation of the Resolution Fund, in particular the annual report of 2019 and the public communications from the Resolution Fund; and ► analyzing the disclosures contained in the consolidated financial statements, based on the requirements of international financial reporting standards and in the accounting records.

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
spite of existing guarantees, may lead to effects or impacts in the Group which not possible to determine or quantify; ► existing lawsuits following the closing of the sale and purchase agreement of the Group and the setting up of the contingent capital mechanism, signed between the Resolution Fund and Lone Star; ► the Group includes participating institutions in the Resolution Fund, which, as a result of the measures implemented in the past, presents uncertainties related to ongoing litigation and the risk of a possible insufficiency of resources to ensure compliance with its responsibilities. Management expects that the Group will not be required to make special contributions or any other kind of extraordinary contributions to fund resolution measures applied to the BES and Banif, as well as the contingent capital mechanism and the indemnities mechanism. In spite of the management consideration that it is not likely that the situations described above materialize in impact on the Group's financial statements, the magnitude of these impacts would be quite significant. During 2021, the Group considered that, from the difficulty in interpretation or compliance with tax law and regulations recently enacted, there is a probable risk that an outflow of resources embodying economic benefits will be required. The risk assessment and the assumptions are matters of judgement by the management which requires complex analysis using internal and external legal experts by the Group. Given the relevance of these contingencies for the Group, we consider this topic as a key audit matter.	

Responsibilities of management and the supervisory board for the consolidated financial statements

Management is responsible for:

- the preparation of consolidated financial statements that presents a true and fair view of the Group´s financial position, financial performance and cash flows in accordance with International Financial Reporting Standards as endorsed by the European Union;
- the preparation of the Management Report, Corporate Governance Report and the Non-financial statement in accordance with the laws and regulations;
- designing and maintaining an appropriate internal control system to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- the adoption of accounting policies and principles appropriate in the circumstances; and
- assessing the Group's ability to continue as a going concern, and disclosing, as applicable, matters related to going concern that may cast significant doubt on the Group´s ability to continue as a going concern.

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*(Translation from the original document in Portuguese language
In case of doubt, the Portuguese version prevails)*
31 December 2021

The supervisory body is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group 's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion;
- communicate with those charged with governance, including the supervisory body, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit;
- from the matters communicated with those charged with governance, including the supervisory body, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter; and
- we also provide the supervisory body with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the measures we took to eliminate those matters or the related safeguards we applied.

Our responsibility additionally includes the verification of the consistency of the Management Report with the consolidated financial statements, and the verifications under nr. 4 and nr. 5 of article 451 of the Commercial Companies Code regarding corporate governance, as well as verifying that the Non-financial statement was presented.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

On the Management Report

Pursuant to article 451, nr. 3, paragraph e) of the Commercial Companies Code, it is our opinion that the Management Report was prepared in accordance with the applicable legal and regulatory requirements and the information contained therein is consistent with the audited consolidated financial statements and, having regard to our knowledge and assessment over the Group, we have not identified any material misstatement.

As mentioned in article 451. Nr. 7 of the Commercial Companies Code, this opinion is not applicable to the Non-financial statement included in the Management Report.

On the Corporate Governance Report

Pursuant to article 451, nr. 4 of the Commercial Companies Code, in our opinion, the Chapter 6. Corporate Governance included in the Management Report includes the information required to the Group to provide as per article 29-H of the Securities Code, and we have not identified material misstatements on the information provided therein in compliance with paragraphs c), d), f), h), i) and m) of nr.1 of the said article.

On the Non-financial statement

Pursuant to article 451, nr. 6 of the Commercial Companies Code, we inform that the Group prepared the Sustainability Report separated from the Management Report, which includes the Non-financial statement, as required in article 508-G of the Commercial Companies Code, being the same disclosed together with Management Report.

On additional items set out in article 10 of the Regulation (EU) nr. 537/2014

Pursuant to article 10 of the Regulation (EU) nr. 537/2014 of the European Parliament and of the Council, of 16 April 2014, and in addition to the key audit matters mentioned above, we also report the following:

- We were appointed as auditors of Novo Banco, S.A. (Group´s Parent Entity) for the first time in the shareholders' general meeting held on 21 December 2017 for a mandate from 2018 to 2020. We were reappointed in the shareholders' general meeting held on 22 October 2020 for a second mandate from 2021 to 2024;
- Management has confirmed that they are not aware of any fraud or suspicion of fraud having occurred that has a material effect on the financial statements. In planning and executing our audit in accordance with ISAs we maintained professional skepticism and we designed audit procedures to respond to the possibility of material misstatement in the consolidated financial statements due to fraud. As a result of our work we have not identified any material misstatement to the consolidated financial statements due to fraud;
- We confirm that our audit opinion is consistent with the additional report that we have prepared and delivered to the supervisory body of the Group on this date; and
- We declare that we have not provided any prohibited services as described in article article 5 of the Regulation (EU) nr. 537/2014 of the European Parliament and of the Council, of 16 April 2014, and we have remained independent of the Group in conducting the audit.

European Single Electronic Format (ESEF)

The accompanying consolidated financial statements of Novo Banco, S.A. for the year ended 31 December 2021 must comply with the applicable requirements set out in the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 (ESEF Regulation).

Management is responsible for preparing and disclosing the annual report in accordance with the ESEF Regulation.

Our responsibility is to obtain reasonable assurance about whether the consolidated financial statements, included in the annual report, are presented in accordance with the requirements set out in the ESEF Regulation.

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Our procedures considered the OROC Technical Application Guide (GAT 20) on report in ESEF and included, among others:

- gaining understanding of the financial reporting process, including the submission of the annual report in valid XHTML format; and
- the identification and evaluation of the risks of material distortion associated with the marking-up of the information of the financial statements, in XBRL format using iXBRL technology. This evaluation was based on the understanding of the process implemented by the Group to mark-up the information.

In our opinion, the accompanying consolidated financial statements included in the annual report are presented, in all material respects, in accordance with the requirements set out in the ESEF Regulation.

Lisbon, March 9, 2022

Ernst & Young Audit & Associados – SROC, S.A.
Sociedade de Revisores Oficiais de Contas
Represented by:

(Signed)

António Filipe Dias da Fonseca Brás - ROC nr. 1661
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(Translation from the original document in the Portuguese language. The opinion on European Single Electronic Format is only applicable in the Portuguese Version. In case of doubt, the Portuguese version prevails)

Statutory and Auditor's Report

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of Novo Banco, S.A. (the Bank), which comprise the Balance Sheet as at 31 December 2021 (showing a total of 44,341,445 thousand euros and a total equity of 2,799,402 thousand euros, including a net profit for the year of 225,908 thousand euros), and the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity and the Statement of Cash Flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the financial position of Novo Banco, S.A. as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as endorsed by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and other technical and ethical standards and guidelines as issued by the Institute of Statutory Auditors. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section below. We are independent of the Bank in accordance with the law and we have fulfilled other ethical requirements in accordance with the Institute of Statutory Auditors´ code of ethics.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matters in the current year audit are the following:

1. Impairment for loans and advances to customers

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
The caption loans and advances to customers includes an accumulated impairment amount of 1,235,757 thousands of euros ("K€"), with an impairment loss of 147,106 K€ recorded in the period on Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss. The details of the impairment for loans and advances to customers, the related accounting policies, methodologies, definitions and assumptions are disclosed in the notes to the financial statements (Notes 6.16, 7.1, 18, 22 and 39.3)	Our audit approach included the execution of the following procedures: ► obtaining the understanding, evaluating the design and testing the operational effectiveness of the existing internal control procedures in the process of quantification of impairment losses for loans and advances to customers; ► performing analytical procedures on the evolution of the balance of the impairment for loans and advances to customers, comparing it with last year and with the expectations, considering the changes in the loan portfolio; ► selecting a sample of customers individually assessed for impairment to evaluate the assumptions used by

Sociedade Anónima - Capital Social 1.335.000 euros - Inscrição n.º 178 na Ordem dos Revisores Oficiais de Contas - Inscrição N.º 20161480 na Comissão do Mercado de Valores Mobiliários
Contribuinte N.º 505 988 283 - C. R. Comercial de Lisboa sob o mesmo número
A member firm of Ernst & Young Global Limited

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
In order to calculate this estimate on the impairment loss of the loans and advances to customers, management made judgments such as the business model assessment, the evaluation of significant increase in credit risk, the classification as default, the definition of groups of financial assets with similar credit risk characteristics and the use of models and assumptions. For relevant exposures on an individual approach, the impairment is determined based on the judgment from Bank specialists on the evaluation of credit risk. In addition to the complexity of the models, its use requires the treatment of a significant volume of data, which raises issues on its quality and availability. The effects of the Covid-19 pandemic may not be completely resolved nor fully martialized, with their full impact still uncertain. As so, the impairment for loans and advances to customers has to take into consideration an eventual decrease in the credit quality of the assets in the event of the risk materializing. Given the degree of subjectivity and complexity involved, the use of alternative approaches, models or assumptions may have a material impact on the value of the estimated impairment, which makes we consider this topic as key auditing matter.	management in quantifying impairment. This analysis included the information containing business models, the financial situation of the debtors and the collateral appraisal reports. Inquiring of Bank experts in order to obtain an understanding of the recovery strategy defined and the assumptions used. ► analyzing the impacts estimated by the Bank to reflect the end of the moratoria and the possible emergence of defaults in this population of debtors; ► analyzing the documents formalizing the relevant sale operations of loans and advances to customers and assessed the impact in the financial statements; ► obtaining the understanding and evaluating the design of the model used to calculate the expected loss, testing the calculation, comparing the information used in the model with the source information, through the reconciliations prepared by the Bank staff, evaluating the assumptions used to fill gaps in data, comparing the parameters used with the results of the estimation models and comparing the results with the values in the financial statements; ► evaluating the reasonableness of the parameters used in the calculation of impairment, highlighting the following procedures: i) understanding the methodology formalized and adopted by management and comparing with the one effectively used; ii) evaluating the changes to models used by the Bank to determine the parameters used in the impairment calculation; iii) on a sample basis, comparing the data used in the calculation of the risk parameters with source information, including testing the stage classification; iv) inquiries to management's experts responsible for models and inspection of reports from internal audit and regulators; and v) inspection of the reports with the results of the operational assessment of the model (back-testing); ► testing the reasonableness of the overlays, in particular the ones to respond to the additional judgmental areas resulting from the end of the moratoria and assessing the governance associated with these overlays; ► reading the minutes of the Credit Impairment Committees and of the correspondence with the Resolution Fund; and ► analyzing the disclosures included in the explanatory notes to the financial statements, based on the requirements of international financial reporting standards and accounting records.

2. Valuation of restructuring funds

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
As disclosed in the Notes to the financial statements, on 31 December 2021 (note 22), the Bank held financial assets mandatorily at fair value through profit or loss in the amount of 2,250,308 K€, of which €425,363 K€ and 1,265,718 K€ refer to, respectively, shares and other securities with variable income. Part of these financial assets, in the amount of 2,063,378 K€, is measured at fair value using valuation methodologies that include parameters not observable in the market (level 3) and includes the participation of the Bank in restructuring funds (note 38). The valuation of these financial instruments is an estimation of fair value performed by management which uses internal models and parameters not observable in the market. During 2020, the management, with the assistance of external experts, performed an independent valuation of these financial instruments, which was reviewed in 2021 based on observed market evolution on similar markets. Management considers that this reviewed valuation corresponds to the best estimate of fair value as of 31 December 2021. The consideration of this issue as a key audit matter was based on its materiality for the financial statements and the fact that the use of different valuation techniques or assumptions could lead to different estimates of fair value.	Our audit approach included the execution of the following procedures: ► obtaining the understanding of the existing internal control procedures on the valuation of financial instruments process; ► performing analytical procedures on the evolution of the value of these financial instruments, comparing the values with last year and with the expectations formed, which included understanding the variations occurred. Comparing with the valuation of other market participants as disclosed in public available information; ► analyzing the proposals to transact these assets and comparing with the book value; ► analyzing the financial statements of the funds and testing the evolution comparing with the values considered by the Bank; ► testing the review of value performed and analyzing the assumptions used; and ► analyzing the disclosures included in the explanatory notes to the financial statements based on the requirements of international financial reporting standards and in the accounting records.

3. Measurement of real estate obtained through credit foreclosure

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
The caption Other assets includes real estate assets of 165,231 €. The accounting policies and the details of these assets are disclosed in the notes to the financial statements (notes 6.18, 7.6 and 28). As disclosed in note 6.18 to the financial statements, the Other assets include real estate that were essentially obtained by credit foreclosure and for which the Bank has implemented a plan pursuant to its sale. These real estate assets are valued at the lower of net book value and the fair value less cost to sell. The fair value is based on appraisals prepared by experts hired by management. The fair value results from an estimation process by the management that relies on judgments and assumptions and is embodied in an evaluation	Our audit approach included the execution of the following procedures: ► obtaining the understanding of the existing internal control procedures in the process of valuation of the real estate assets received by credit recovery; ► performing analytical procedures on the value of the assets included in the Other assets, compared with last year and with the expectation formed, which include the understanding of the variations that have occurred and identification of changes in the assumptions and methodologies; ► for a sample of real estate assets, testing the reasonableness of the methodologies and assumptions used by management's external experts registered in CMVM. For

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
carried out by contracted independent experts. The assumptions considered include the best use that can be given to the asset, what could be considered as a comparable transaction or the potential yield that can be obtained. The consideration of this topic as a key audit matter is based on its materiality to the financial statements and the fact that the use of different valuation techniques or assumptions could lead to different estimates of fair value.	these assets, inspection of the eventual promissory sale contracts and the certificate of land register; ► inspecting the real estate sale contracts and testing the derecognition requirements and the calculation of gains and losses recorded; ► analyzing the counterparties of the most significant sales in order to assess eventual constraints to an arm's length transaction; ► for the most significant transactions with real estate assets in the scope of the contingent capital agreement, obtaining the Resolution Fund approvals; ► inquiries to the management experts on the assumptions used for a sample of assets and read the minutes of the executive board; ► Inquiring the management about potential sale operations and, when applicable, examining the offers received on the assets and comparing with the fair value calculated by the management; and ► analyzing the disclosures included in the explanatory notes to the financial statements, based on the requirements of international financial reporting standards and accounting records.

4. Provisions and disclosure of contingent liabilities

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
As disclosed in note 31 to the financial statements, there is a contingency amounting to 115,800 K€ for which a provision was registered, additionally, the notes to the financial statements disclose the contingent liabilities (note 35) that may represent a possible obligation to the Bank resulting from past events. The occurrence of these obligations is dependent on one or more future events that are not entirely under the control of the Bank. The accounting policies for the recognition of provision or disclosure of contingent liabilities are described in note 6.27 and the main estimates and assumptions in note 7.5. The main contingent liabilities arise from various situations, most notably: ► notwithstanding the clarifications and existing neutralization guarantees, potential adjustments that may occur to "excluded liabilities" payable by Banco Espírito Santo, S.A. ("BES") and that have not been transferred to the Bank;	Our audit approach included the execution of the following procedures: ► obtaining an understanding of the existing internal control procedures in the process of disclosure of contingent liabilities; ► reading the minutes of Novo Banco's management bodies, the correspondence with regulators and with the Resolution Fund; ► analyzing the responses to external confirmations from external legal experts of the Bank and inquiries to the management and to the legal and tax experts on the contingent liabilities of the Bank ; ► inspecting the documentation of the Resolution Fund, in particular the annual report of 2019 and the public communications from the Resolution Fund; and ► analyzing the disclosures contained in the financial statements, based on the requirements of international financial reporting standards and in the accounting records.

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
► the existence of litigation resulting from the resolution measure applied to BES, which, in spite of existing guarantees, may lead to effects or impacts in the Bank which not possible to determine or quantify; ► existing lawsuits following the closing of the sale and purchase agreement of the Bank and the setting up of the contingent capital mechanism, signed between the Resolution Fund and Lone Star; ► the Bank includes participating institutions in the Resolution Fund, which, as a result of the measures implemented in the past, presents uncertainties related to ongoing litigation and the risk of a possible insufficiency of resources to ensure compliance with its responsibilities. Management expects that the Bank will not be required to make special contributions or any other kind of extraordinary contributions to fund resolution measures applied to the BES and Banif, as well as the contingent capital mechanism and the indemnities mechanism. In spite of the management consideration that it is not likely that the situations described above materialize in impact on the Bank's financial statements, the magnitude of these impacts would be quite significant. During 2021, the Bank considered that, from the difficulty in interpretation or compliance with tax law and regulations recently enacted, there is a probable risk that an outflow of resources embodying economic benefits will be required. The risk assessment and the assumptions are matters of judgement by the management which requires complex analysis using internal and external legal experts by the Bank. Given the relevance of these contingencies for the Bank, we consider this topic as a key audit matter.	

Responsibilities of management and the supervisory board for the financial statements

Management is responsible for:

- the preparation of financial statements that presents a true and fair view of the Bank´s financial position, financial performance and cash flows in accordance with International Financial Reporting Standards as endorsed by the European Union;
- the preparation of the Management Report, the Corporate Governance Report and the Non-financial statement in accordance with the laws and regulations;
- designing and maintaining an appropriate internal control system to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- the adoption of accounting policies and principles appropriate in the circumstances; and
- assessing the Bank's ability to continue as a going concern, and disclosing, as applicable, matters related to going concern that may cast significant doubt on the Bank´s ability to continue as a going concern.

The supervisory body is responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- communicate with those charged with governance, including the supervisory body, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit;
- from the matters communicated with those charged with governance, including the supervisory body, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter; and
- we also provide the supervisory body with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the measures we took to eliminate those matters or the related safeguards we applied.

Our responsibility includes the verification of the consistency of the Management Report with the financial statements, and the verifications under nr. 4 and nr. 5 of article 451 of the Commercial Companies Code regarding corporate governance, as well as verifying that the Non-financial statement was presented.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

On the Management Report

Pursuant to article 451, nr. 3, paragraph e) of the Commercial Companies Code, it is our opinion that the Management Report was prepared in accordance with the applicable legal and regulatory requirements and the information contained therein is consistent with the audited financial statements and, having regard to our knowledge and assessment over the Bank, we have not identified any material misstatement.

As mentioned in article 451. Nr. 7 of the Commercial Companies Code, this opinion is not applicable to the Non-financial statement included in the Management Report.

On the Corporate Governance Report

Pursuant to article 451, nr. 4 of the Commercial Companies Code, in our opinion, the "Corporate Governance" chapter included in the Management Report includes the information required to the Bank to provide as per article 29-H of the Securities Code, and we have not identified material misstatements on the information provided therein in compliance with paragraphs c), d), f), h), i) and m) of nr.1 of the said article.

On the Non-financial statement

Pursuant to article 451, nr. 6 of the Commercial Companies Code, we inform that the Bank prepared the Sustainability Report separated from the Management Report, which includes the Non-financial statement, as required in article 508-G of the Commercial Companies Code, being the same disclosed together with Management Report.

On additional items set out in article 10 of the Regulation (EU) nr. 537/2014

Pursuant to article 10 of the Regulation (EU) nr. 537/2014 of the European Parliament and of the Council, of 16 April 2014, and in addition to the key audit matters mentioned above, we also report the following:

- We were appointed as auditors of the Bank for the first time in the shareholders' general meeting held on 21 December 2017 for a mandate from 2018 to 2020. We were reappointed in the shareholders' general meeting held on 22 October 2020 for a second mandate from 2021 to 2024;
- Management has confirmed that they are not aware of any fraud or suspicion of fraud having occurred that has a material effect on the financial statements. In planning and executing our audit in accordance with ISAs we maintained professional skepticism and we designed audit procedures to respond to the possibility of material misstatement in the financial statements due to fraud. As a result of our work we have not identified any material misstatement to the financial statements due to fraud;
- We confirm that our audit opinion is consistent with the additional report that we have prepared and delivered to the supervisory body of the Bank on this date; and
- We declare that we have not provided any prohibited services as described in article 5 of the Regulation (EU) nr. 537/2014 of the European Parliament and of the Council, of 16 April 2014, and we have remained independent of the Bank in conducting the audit.

European Single Electronic Format (ESEF)

The accompanying financial statements of the Bank for the year ended 31 December 2021 must comply with the applicable requirements set out in the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 (ESEF Regulation).

Management is responsible for preparing and disclosing the annual report in accordance with the ESEF Regulation.

Our responsibility is to obtain reasonable assurance about whether the financial statements, included in the annual report, are presented in accordance with the requirements set out in the ESEF Regulation.

Building a better working world

Statutory and Auditor's Report
(Translation from the original document in Portuguese language
In case of doubt, the Portuguese version prevails)
31 December 2021

Our procedures considered the OROC Technical Application Guide (GAT 20) on report in ESEF and included, among others gaining understanding of the financial reporting process, including the submission of the annual report in valid XHTML format.

In our opinion, the accompanying financial statements included in the annual report are presented, in all material respects, in accordance with the requirements set out in the ESEF Regulation.

Lisbon, March 9, 2022

Ernst & Young Audit & Associados – SROC, S.A.
Sociedade de Revisores Oficiais de Contas
Represented by:

(Signed)

António Filipe Dias da Fonseca Brás - ROC nr. 1661
Registered with the Portuguese Securities Market Commission under license nr. 20161271

EVALUATION REPORT FROM THE GENERAL AND SUPERVISORY BOARD ON THE ADEQUACY AND EFFECTIVENESS OF THE ORGANIZATIONAL CULTURE IN PLACE IN GROUP NOVO BANCO, S.A. AND THE GOVERNANCE AND INTERNAL CONTROL FRAMEWORKS AS DEFINED IN B) C) AND D) OF ARTICLE 58TH OF THE NOTICE FROM BANK OF PORTUGAL Nº 3/2020

INTRODUCTION

1. This evaluation report is presented to comply with b) c) and d) of Article 58th of the Notice from Bank of Portugal nº 3/2020 (the "Notice") and belongs to the annual report on the evaluation of the adequacy and effectiveness of the organizational culture in place in Group Novo Banco, S.A. (the "Group") and the governance and internal control frameworks with reference to the period from December 1, 2020 to November 30, 2021.

RESPONSIBILITIES

2. The management and the supervisory bodies are responsible, under their respective competencies, for promoting the existence in the Group of an organizational culture supported in high ethical standards which,
   - promotes an integral risk culture which encompasses all activity areas of the Group and ensures the identifications, assessment, monitoring and control of the risks that the Group is or can become exposed to;
   - promotes a professional conduct of prudence and responsibility to be observed by all employees and members of the management and supervisory boards under their roles and aligned with high ethical standards documented in a code of conduct specific for the Group;
   - reinforces the reputation and levels of confidence in the Group, both internally and in its relations with customers, investors, supervisory bodies and other third parties.

   It is also the responsibility of the management and supervisory bodies to ensure that: the organizational culture of the Group, and the governance and internal control frameworks, including the remuneration actions and policies and other matters included in the Notice, are adequate and effective and promote a sound and prudent management; the Group evaluates the adequacy and effectiveness of the organizational culture in place and the governance and internal control frameworks and issues a yearly report on the results of that evaluation (the "Report").

3. It is our responsibility to issue this report as described in b) c) and d) Article 58th of the Notice to include in the Report.

ACTIVITIES PERFORMED

4. To comply with our responsibilities regarding the organizational culture and the governance and internal control frameworks, we performed the following activities, for which we present a summary:
   - Maintained regular interactions with the Executive Board of Directors. For that purpose, we met with members of the Executive Board of Directors to clarify issues and we read the minutes of the meetings of the Executive Board of Directors. During these meetings, the situation of the Group was presented to us, including matters related to the subsidiaries, which allowed us to understand the internal controls in place at Group level;
   - We met with the managers responsible for the Risk Management, Compliance, and Internal Audit functions at Group level; we read the annual reports of these control functions; we reviewed the statement of independence and inquired if there was any fact or circumstance which may impair that independence. Regarding the internal audit annual report, we took into consideration the validation of the classification of internal control deficiencies;
   - We assessed the audit plan for 2021 and the results of the internal audit actions described in the reports;
   - We analyzed the 'NB Self Assessment – Conclusions & Action Plan Report on the implementation of the Notice in the Group, and met with the managers responsible for this report;
   - We met with the external auditor and analyzed the contents of the Audit report, Impairment Reports, Asset Safekeeping Report, Additional Report to the Supervisory Board, the interim limited review reports for March 31, June 30, and September 30 of 2021 and the preliminary version of the Factual Findings Report to be issued by Ernst & Young – Audit & Associados – SROC, S.A., including the test on the classification of the deficiencies. We reviewed the content of the communication of significant deficiencies of internal control of the Group sent by the external auditor on December 7, 2021;
   - We read the Group Report and the individual reports of the relevant subsidiaries, including the deficiencies and planned measures to correct them, and assessed the status of those measures;
   - We assessed the coherence between the internal control systems of the subsidiaries, having analyzed the content of the evaluation reports of the supervisory boards of the relevant subsidiaries, in addition to the procedures mentioned above.

INHERENT LIMITATIONS

5. The General and Supervisory Board is aware of the inherent limitations of any internal control framework which, irrespective of its adequacy and effectiveness, may only provide reasonable assurance to the management and supervisory bodies on the purposes related to organizational culture, governance, and internal control systems, as well as other matters described in the Notice. Additionally, an appropriate internal control in place regarding the financial and prudential reporting is not in itself sufficient to ensure the reliability of the disclosed financial and prudential information. In fact, there are prior processes in the different operational and support areas of the Group, where it is critical to have an adequate internal control in place to ensure the reliability of the information provided to the areas responsible for the prudential and financial reporting. Therefore, given the inherent limitations on any control system, deficiencies, fraud, or errors may occur without being detected.

   Given the usual dynamic in any internal control system, any conclusion on the adequacy or effectiveness of that system cannot be projected for future periods, as there is the risk that the controls and procedures in place may become inappropriate due to changes in the context or deterioration in the compliance with the policies, procedures, and controls.

   The evaluation of the impacts of the deficiencies is an estimate of the Executive Board of Directors and follows the criteria defined by the Group and the process to classify the deficiencies according to the criteria and assumptions. Given the judgement associated with the definition of the criteria, the assumptions and in the evaluation of the impacts, different classification could be given to the deficiencies in case different criteria or assumptions were defined. Equally, an evaluation performed on another date on the same deficiency could reach different conclusions, and the impact of a deficiency can materialize differently from what was estimated.

CONCLUSION

6. As described in the Report, there are deficiencies classified as F3 – High risk and F4 – Severe, which can lead to a high or very high impact on the financial position, capital requirements, governance, leverage, business model or risk monitoring of the Group.
7. For each of the deficiencies a mitigation plan and a proposed implementation timeline was presented to us. Considering the importance of the matter in the Group, these deficiencies are being monitored by the internal structure, by the internal control functions and by the Executive Board of Directors, and the implementation status will be regularly reviewed by the General and Supervisory Board.
8. The 'NB Self Assessment – Conclusions & Action Plan' report identifies several matters of the Notice where the Group is still in the process of implementing the measures to adequately comply with the Notice.
9. Considering the activities we performed, which are described in paragraph 4 above, and except for the eventual impact of the matters described in paragraphs 6 to 7, notwithstanding the ongoing implementation the new requirements of the Notice and with reasonable assurance in respect to the material aspects:
   - In our opinion, the organizational culture and the governance and internal control frameworks of Novo Banco, S.A. were adequate and effective on November 30, 2021.
   - We appreciated positively the completeness status of the defined measures from December 1, 2020 to November 30, 2021 to correct the deficiencies identified in the Report.
   - We declare that the classification given to the deficiencies classified as level F3 "High" or level F4 "Severe" is adequate.
   - In our opinion, the internal control functions, including the outsourced operational procedures, are performed with adequate quality and independence.
   - The financial and prudential reporting processes were, insofar as we could appreciate due to the procedures inherent in our responsibilities, reliable from December 1, 2020 to November 30, 2021.
   - The processes to produce information disclosed to the public by the Group due to legal or regulatory requirements, including the financial and prudential disclosures were, insofar as we could appreciate due to the procedures inherent in our responsibilities, reliable from December 1, 2020 to November 30, 2021.
   - The requirements to disclose information to the public resulting from applicable law or regulation and related to the matters described in the Notice were, insofar as we could appreciate due to the procedures inherent in our responsibilities, adequately complied with from December 1, 2020 to November 30, 2021.
   - The internal control systems of the subsidiaries were, insofar as we could appreciate due to the procedures inherent in our responsibilities, coherent with the internal control system of the parent;
   - The Group has no foreign branches or offshore institutions with remuneration policies, as these entities do not make payments of remuneration to any member of governing bodies or personnel.

OTHER MATTERS

10. This Evaluation Report is prepared and issued solely for the information of the Executive Board of Directors of the Group and to be presented to the Bank of Portugal as required by the Notice and as an integral part of the Report. Therefore, it cannot be used for any other purpose, or read outside the context of the Report, nor can it be presented to third parties without our previous written consent.

Lisbon, December 15, 2021

(This report was approved by the General and Supervisory Board at a meeting held on December 15, 2021.)

REPORT OF THE GENERAL AND SUPERVISORY BOARD AND OPINION OF THE FINANCIAL AFFAIRS (AUDIT) COMMITTEE ON THE MANAGEMENT REPORT AND ON THE SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS OF NOVO BANCO, S.A. FOR THE YEAR ENDED 31 DECEMBER 2021

Pursuant to the mandate we have been given and in compliance with the provisions of h) and q) of paragraph 1 of article 441° and article 444.º of the Commercial Companies Code and the bylaws of Novo Banco, S.A. ("novobanco"), the General and Supervisory Board ("GSB") is required to issue the Annual Report on the activity developed and the Financial Affairs (Audit) Committee is required to issue an opinion on the Management Report and the separate and consolidated financial statements of novobanco, which comprise the separate and consolidated income statement and separate and consolidated statement of comprehensive income, separate and consolidated balance sheet, separate and consolidated statement of changes in equity and separate and consolidated statement of cash flows and the respective Annexes, as well as on the proposed application of Results, presented by the Executive Board of Directors ("EBD") of novobanco, for the year ended on 31 December 2021.

1. Report of the General and Supervisory Board for the year 2021

1.1. Composition and scope

In accordance with the applicable law, novobanco's bylaws and best practices at the date of this Annual Report, six of the ten members who comprise the GSB, including the Chairman, are independent. The GSB has the powers given to it by law, by the Bylaws and by its own regulation, including the supervision of all matters related to risk management, compliance and internal audit.

During 2021, we have monitored the activity of the Bank and its more significant subsidiaries. The activity of the GSB is directly supported by 5 (five) committees, in which were delegated some of its powers, namely the Financial Affairs (Audit) Committee, the Risk Committee, the Compliance Committee, the Nomination Committee and the Remuneration Committee, as provided for in articles 6 and 16 of the Bylaws of novobanco and the Regulation of the GSB.

These Committees are chaired and composed by members of the GSB and can also have the presence of EBD members or other managers responsible for the areas covered by the activities of these Committees.

The GSB meets monthly and additionally when required, performing the duties assigned to it by law, by the Bylaws of the Bank and by its own regulation. The EBD informs the GSB on all relevant matters, timely and on a comprehensive written or verbal manner.

1.2. Activity undertaken in 2021

General and Supervisory Board

During the year 2021, the GSB held 17 meetings, where several issues were discussed, analyzed and approved. These issues included the separate and consolidated financial statements of novobanco for the year ended 31 December 2021 and the Half Year 2021 consolidated financial statements as well as the financial results for the first and third quarters of 2021, the 2021-2023 Strategic and Medium Term-Plans, the NPA Plan for 2021-2023 and the strategy and risk appetite for 2021.

Other issues included the approval and/or follow-up of the sale of novobanco's assets, in particular, the sale of the Spanish Branch (Project Toro), the sale of NPA portfolios and related assets (Harvey, Orion and Wilkinson), the follow-up of the events and of the report of the Parliamentary Inquiry Commission, the follow-up of the Court of Auditors audit, the follow-up and approval of the PR Communication strategy, the follow-up and approval of the process of rebranding carried out in the last quarter of 2021, the follow-up of the activity of the Internal Audit Department, the follow-up of the most relevant lawsuits against the Group, the follow-up of IFRS 9 arbitration processes, the follow-up of year 2019 Special Audit and the follow-up of Tagus Park HQ Project.

The GSB has also reviewed and/or approved several amendments to internal policies, such as the Code of Conduct, the Conflicts of Interest Policy, the Policy on Related Party Transactions, GSB's own regulation, the regulation of the Remuneration Committee, as well as the changes to the Policy for Selection and Evaluation of novobanco' Statutory Auditor, the Remuneration Policies for Management and Supervisory Bodies, and novobanco's Succession Policy.

In what concerns matters relating to the CCA Agreement, the GSB monitored regularly all issues related to year 2020 CCA call and analyzed the reports issued by the Verification Agent.

The GSB also followed closely the evolution of the DGComp's commitments, through the analysis of the various Monitoring Trustee reports, analysed the Group's Impairment report, the Group's Internal Control report, the Self-Assessment Reports of the Risk, Audit and Compliance Functions and approved the Internal Audit Plans of 2021 and for 2022.

In terms of other interactions with the regulators, the GSB followed closely the MREL targets set by the SRB and approved the operations put in place to reach those targets, analyzed 2021's Stress Tests results, reviewed and approved ICAAP and ILAAP, closely followed the evolution of the implementation of the Group's ESG Strategy, was regularly updated on regulatory changes and correspondence with the key stakeholders of novobanco, and approved the annual Fit and Proper revision for the Executive Board of Directors members, General and Supervisory Board members and the members of the Board of Directors of the subsidiaries Novobanco dos Açores, Banco BEST and GNB Gestão de Ativos.

The GSB also approved the activity plans of the General and Supervisory Board and its Committees for 2022 (on a first approach, to be updated regularly), and followed-up on matters related to DTA and conversion rights attributed to the State for years 2015, 2016 and 2017, novobanco´s response, actions and initiatives with respect to COVID19 and the global pandemic effects in the economy, including credit moratoria.

Throughout the year, the GSB was updated with respect to the operating results of the Group, evolution of retail, corporate, treasury and digital businesses, capital and liquidity position of novobanco as well as regular forecasts for the full year 2021 (capital and results).

At the end of the year 2021, the General and Supervisory Board completed its evaluation report on the adequacy and effectiveness of the organizational culture in place in Group novobanco (the “Group”) and the governance and internal control framework with reference to the period from December 1, 2020 to November 30, 2021 in compliance with b) c) and d) of Article 58 of Bank of Portugal’s Notice nº 3/2020 (the “Notice”) in which the GSB acknowledged the deficiencies that were found and approved for each of those deficiencies the mitigation plans and the proposed implementation timelines presented by the Executive Board of Directors.

These deficiencies included 57 deficiencies classified as F3 – High risk and 5 classified as F4 – Severe.

The CEO and the Chief Financial Officer (CFO) participated in the meetings as guests. Other EBD members participated in the meetings on request for specific topics. The Monitoring Commission was present in all meetings.

Under and for the purposes of analyses and verifications performed, the General and Supervisory Board requested, and obtained, documentation and clarification for the several issues raised.

Financial Affairs (Audit) Committee

The Financial Affairs (Audit) Committee held 23 meetings during 2021 and concentrated its activity in the assessment of the Bank’s financial statements, and reports of the statutory auditor for the financial year 2021, as well as the oversight of the Internal Audit (IA) activity. The IA oversight included, among other, discussing and analyzing related monthly status update reports (covering items such as the implementation of the agreed plan and related findings, follow-up of outstanding issues, and topics relating to IA resources and practices), and reviewing the Annual Activity execution report for 2021, as well as approving the Internal Audit Plans for 2021 and for 2022 (including Multi-year plans). Throughout 2021, the main Non-Performing Assets sales operations were monitored by the Audit Committee, namely, Project Harvey, Orion and Wilkinson, and the potential acquisition of equity (Project Molin). During 2021, the Committee also followed the evolution of several relevant projects, including the RWA review process, the MREL requirements and the operations to meet those requirements, RaRoc outputs and the Valuation Unit’s activity. The Audit Committee also monitored during 2021 the valuation of novobanco´s equity investments, including restructuring funds, as well as the calculations and details of the restructuring costs. The Committee monitored on a continued basis, the independence and the work of the external auditor, including the supervision and approval of the provision of other additional services to novobanco’s Group performed by that auditor. The meeting agendas included updates on the regulatory aspects of the Bank’s activity, the follow-up of the 2021-2023 Medium-Term Plan and the evaluation process for supervisory purposes (SREP).

The Audit Committee monitored internal control systems during the year and completed the year-end 2021 review of the assessment of the control functions in accordance with Notice 3/2020 of Banco de Portugal.

The statutory auditor, as well as the Head of Internal Audit, the CEO and the Chief Financial Officer (CFO) participated in the meetings as guests, where necessary.

In addition, Committee members met separately with the statutory auditor and the head of internal audit, without the presence of the members of the EBD.

Risk Committee

The Risk Committee held 17 meetings during the year 2021. In addition to the approval of loans to individual clients or groups of clients associated, according to its own Regulation, the Committee analyzed and discussed the strategy and risk appetite and limits for 2021, according to the Medium-Term Plan for 2021-2023, the NPA 2021-2023 Plan, Covid-19 Key Initiatives and Actions 2021, including credit moratoria. Other topics discussed by the Risk Committee included the main monthly indicators of risk (credit risk, market risk and operational risk) and the provisions and impairments of credit in the financial statements for the financial year of 2021, as well as the approval of the Risk Activity Plan for 2022. Non-performing loans of the Bank were also reviewed and compared with peers and with the indicators of the European Banking Authority (EBA). The governance model of risk was also subject to review in the year. The meeting agendas regularly included reports of the regulatory aspects relating to the risks faced by the Bank, particularly in the context of LGD’s, IRBB and the revision of the risks inherent to the sectors affected by COVID 19, revisions of economic groups highly exposed to these sectors and the conclusions of the SREP. The calculation of risk-bearing capacity of the Bank was also a frequent subject in the meetings of the Committee. Other risk regulatory topics were discussed and reviewed throughout the year, including the results of on-site regulatory reviews.

The Risk Committee reviewed at year end 2021 the assessment of the risk management activities in accordance with Notice 3/2020 of Banco de Portugal, including the Annual Self-Assessment Report (RAA)

The head of the risk function, the CEO and the Chief Risk Officer (CRO) participated in meetings as guests, where necessary.

Compliance Committee

The Compliance Committee held 7 meetings during 2021 and deliberated on governance, regulatory and legal issues related to the Bank’s structure and operations, having examined and discussed the issues of regulatory compliance of the Bank, including the Notice 3/2020 of Banco de Portugal and

EBA Guidelines on internal control and compliance areas implementation and the AML legislation, the legislation on data protection, whistleblowing procedures, other legal and regulatory affairs and other relevant ongoing projects. The Committee reviewed and discussed issues of related-parties transactions and conflicts of interest, as well as the more relevant lawsuits regularly accompanied by the Bank.

Nomination Committee

The Nomination Committee held 3 meetings during the year 2021. The annual assessment (individual and collective level) of the adequacy and suitability of the members of the Executive Board of Directors and GSB of novobanco and members of the Board of Directors of the subsidiaries novobanco dos Açores, Banco BEST and GNB Gestão de Ativos was performed by the Fit & Proper Office. The Succession Plan Matrix for Key Function Holders was also analyzed. During 2021, Fit and Proper was also approved for the new Head of the Treasury and for the new Compliance Officer of novobanco, as well as for the new CEO of novobanco dos Açores.

The report on gender diversity was also analyzed as well as the Selection and Evaluation Policy for the Management and Supervisory Bodies and Key Function Holders and novobanco's Succession Policy.

Remuneration Committee

The Remuneration Committee held 5 meetings during the year 2021. At these meetings, the Committee monitored the implementation of policies relating to the remuneration of the management and supervisory bodies and staff and adopted a set of decisions related to the variable component of remuneration for EBD and identified staff for year 2021. The Remuneration Committee also set and approved the main individual and collective performance indicators for the EBD members for the year 2021, based on the approved budget for this year and approved the 2020's EBD KPI results. The Remuneration Committee approved the Identified Staff for year 2021 following recommendation of the EBD. It also approved the budget for 2021 variable remuneration and the amounts to be paid to identified staff and EBD members (subject to the rules approved in the respective policy).

The Remuneration Committee year-end 2021 completed the review of a centralized and independent internal analysis aiming at verifying the compliance of the remuneration policies in place in accordance with the law and with Banco de Portugal Notice 3/2020.

During the year of 2021, the GSB and their Committees have issued several opinions arising from requests made by the EBD, under article 15, paragraph 5 of the Bylaws.

The GSB and the Audit Committee held meetings throughout the year with the audit firm Ernst & Young Audit & Associados - SROC, S.A., both in the context of the audit of the separate and consolidated financial statements for the year ended 31 December 2021, and regular monitoring and discussion of the most relevant aspects resulting from the assessment of the internal control.

Under the existing articulation with the audit firm, the GSB obtained the necessary and sufficient explanations to the questions within the scope of its functions and, in particular:

- The completeness of the accounting records and documents that support them;
- The existence of goods or values belonging to novobanco's Group or received in guarantee, deposit or other title; and
- If the accounting policies and valuation criteria adopted lead to an adequate representation of the assets and of the results of novobanco.

The GSB reviewed all matters contained in the Legal Certification of accounts and Audit Report on the consolidated and individual financial statements issued by the statutory auditors for the year ended 31 December 2021, having obtained from the auditors all the necessary clarifications, on the relevant matters included under the same audit:

- Impairment for loans and advances to customers;
- Financial instruments measured at fair value and classified as level 3 under IFRS 13;
- Restructuring provisions;
- Restructuring funds valuation;
- Pension funds liabilities valuation;
- Measurement of real estate obtained through credit foreclosure;
- NPA sale transactions;
- Contingency on property tax;
- Disclosure of other contingent liabilities;
- Contingent Capital mechanism matters; and
- Aviso 3/2020 Bank of Portugal matters.

All these matters were monitored by the GSB and their Committees, which, on these matters, were kept updated by the EBD, by the relevant Departments and by the external auditors.

In preparing the accounts of the financial year, the GSB analyzed the management report as well as other documents submitted by the EBD, having proceeded to verifications and obtaining the clarifications deemed necessary, which comply with the applicable legal requirements.

The accounts were audited by the audit firm Ernst & Young Audit & Associados SROC, S.A., which issued the Audit Report on the financial information for the year ended 31 December 2021 on 8 March 2022, without qualifications nor emphasis of matter, to which the GSB expresses its agreement.

The GSB reviewed the Additional Report to the Supervisory Board issued by the statutory auditors on the same date, which corresponds in substance to the issues that have been discussed along the year, and for which they have obtained all the necessary clarifications.

2. Opinion of the Audit Committee on the Management Report and the separate and consolidated financial statements

Within the scope of our work, and in accordance with article 444, number 2, of the Code of Commercial Companies, we verified that:

a. the separate and consolidated balance sheet, the separate and consolidated income statement and the separate and consolidated statement of comprehensive income, the demonstration of changes in individual and consolidated equity, the separate and consolidated cash flow statement and the corresponding Annex, allow a proper understanding of the asset, liabilities and the separate and consolidated financial position of novobanco, its separate and consolidated results of changes in equity and the separate and consolidated cash flows;

b. the accounting policies and valuation criteria adopted are appropriate;

c. the management report is sufficiently clear as to the evolution of the business and the situation of the Bank and all the subsidiaries included in the consolidation, highlighting the most significant aspects, as well as a description of the main risks and uncertainties that the Bank faces;

d. the proposed application of results does not contradict the legal and statutory provisions applicable; and

e. in accordance with paragraph 5 of article 420 of the Code of commercial companies, (applicable for remission of article 441, number 2), the information about the corporate governance includes the elements required under article 245-A of the Securities Code and other applicable legislation.

Therefore, it is the Committee's opinion to:

a. Approve the management report as well as the other documents of account, for the year of 2021, presented by the Executive Board of Directors, considering the aspects highlighted in the Audit report on the consolidated and separate financial statements of the Bank for that year issued by the audit firm; and

a. Approve the proposed application of results submitted by the EBD in its Management Report.

Finally, the General and Supervisory Board would like to express its appreciation to the Executive Board of Directors, to the managers in charge of the various areas of the Bank and to the remaining employees, as well as to the auditors, for the cooperation and the support in the completion of its work.

Lisbon, 9 March 2022

General and Supervisory Board and the Financial Affairs (Audit) Committee

Byron James Macbean Haynes
Chairman of the General and Supervisory Board
and member of the Financial Affairs (Audit) Committee

John Herbert
Member of the General and Supervisory Board

Karl-Gerhard Eick
Vice-Chairman of the General and Supervisory Board
and Chairman of the Financial Affairs (Audit) Committee

Donald John Quintin
Member of the General and Supervisory Board

Kambiz Nourbakhsh
Member of the General and Supervisory Board
and member Financial Affairs (Audit) Committee

Robert A. Sherman
Member of the General and Supervisory Board

Mark Andrew Coker
Member of the General and Supervisory Board

Carla Antunes da Silva
Member of the General and Supervisory Board

Benjamin Friedrich Dickgiesser
Member of the General and Supervisory Board

William Henry Newton
Member of the General and Supervisory Board

Abbreviations and Acronyms

ECB	European Central Bank
DGCOMP	Directorate-General | Competition
CCA	Contingent Capital Agreement
ESG	Environment, Sustainability and Governance
YTD	Year-to-date - change since the start of the year
YoY	Year-on-Year - change on a year earlier
NII	Net Interest Income
LCR	Liquidity Coverage Ratio
€	euro
€mn	million euro
€bn	billion euro
bps	basis points
pp	percentage points